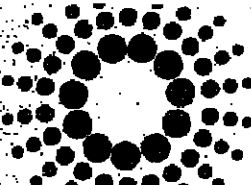




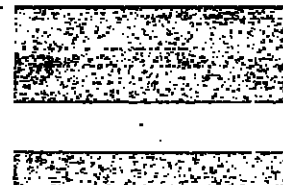
**New Russians**  
**Rise of the business class**  
Page 15



**Under siege**  
**Bankers move in on Hong Kong**  
Page 14



**Beam time**  
**Using the world's brightest X-rays**  
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**Today's surveys**  
**Mauritius Business locations**  
Separate sections

# FINANCIAL TIMES

Europe's Business Newspaper

TUESDAY, SEPTEMBER 27, 1994

D8523A

## BT boosts global ambitions with Scandinavian deal

British Telecommunications yesterday announced a partnership agreement with three of Scandinavia's four national telecommunications operators, in a further boost to its international ambitions.

Norwegian Telecom, Telecom Finland and Tele Danmark, the Danish national operator, will work with BT to market one-stop international telecom services across Scandinavia, in a move that marks a further stage in the division of the world's leading telecom operators between three alliances. Page 17; BT rival reveals its prices, Page 9

**India tries to limit plague** Indian health authorities were struggling to control the spread of pneumonic plague after signs of further outbreaks following the flight of 300,000-500,000 people from the western city of Surat. Page 16

**Jury selection starts in O J Simpson trial** For 8½ months, there has been nothing in the US to compare with the case of O.J. Simpson, the retired gridiron football star accused of the murder of his former wife, Nicole Brown Simpson, and her friend, Ronald Goldman. Yesterday the trial started, with the questioning of as many as 1,000 prospective jurors, from whom a panel of 12, with eight alternates, must be chosen. Page 16



**Peugeot Citroën provided evidence of the recovery in the French car industry and the strengthening of its product range, announcing net profits of FF168bn (\$132m) for the first half of the year, compared with a loss of FF1.12bn in the same period in 1993. Page 17**

**Last-ditch move on trade** In Washington today Ruyutaro Hashimoto, Japan's international trade and industry minister, will make a last-ditch attempt to resolve the deadlock in US-Japanese trade talks and avoid sanctions. Page 16

**Israel restarts West Bank settlement** The Israeli government lifted the two-year freeze on building new housing for Jewish settlers in the occupied territories, with prime minister Yitzhak Rabin approving plans for almost 1,000 housing units just inside the West Bank. Page 5

**Sabena, Belgian state-owned carrier, is seeking to pressure Air France into reducing or selling its minority stake to enable the formation of partnerships with other interested airlines. Page 20**

**Moscow budget attacked** The Russian budget, its income cut almost in half because of a huge shortfall in tax revenues, came under attack from two of the strongest lobbies in the country - the military and the energy ministry. Page 2

**Tokyo relaxes rules on derivatives** Japan took a small step on its long road to financial deregulation by permitting banks to trade in two forms of financial derivatives. Page 21

**Eurotunnel shares fall on reports of leaks** Eurotunnel's share price fell 19p, or 7 per cent, to 250p, as reports of leaks in the Channel tunnel added to the challenge the UK company faces in avoiding a further refinancing, following its May \$58m (\$1.3bn) rights issue. Eurotunnel said the salt water leaks were in line with the design and would not delay the start date for a full service. More of a problem, however, is the impact the story could have on public perception of the tunnel, and the knock-on effect of a low share price on anticipated capital from the conversion of warrants. Page 23

**Pakistan gains investment** Pakistan's efforts to attract investments in power generation and oil and gas exploration have borne fruit with contracts worth \$4bn. Page 8

**26 die in crash** A Russian Yak-40 aircraft crashed while trying to make an emergency landing in bad weather at Vanavara in Siberia, killing all 23 passengers and the three crew members.

**Swinging London** MTV Networks, the American-owned music television group, is to make London its international headquarters responsible for all MTV activities outside the US. Page 9

**STOCK MARKET INDICES**  
FT-SE 100 2,999.8 (-28.4)  
Yield 4.21  
FT-SE Eurotrack 100 1,238.05 (-1.99)  
FT-SE-A All-Share 1,525.22 (-10.94)  
Nikkei 19,814.26 (-15.31)  
New York: S&P 500 3,832.42 (+0.67)  
Dow Jones Ind. Ave. 459.59 (-0.08)

**US LUNTIME RATES**  
Federal Funds 4.12%  
3-mo Treas. Bill: 4.82%  
Long Bond 9.51%  
Yield 7.75%

**LONDON MONEY**  
3-mo Interbank 5.12% (Sterling)  
Life long gilt future: Dec 94 99.4

**NORTH SEA OIL (August)**  
Brent 15-day (Nov) \$16.46 (18.65)  
**GOLD**  
New York: Comex (Dec) \$387.8 (395.6)  
London \$385.95 (396.0)

**STERLING**  
New York: Lintas: \$ 1.5746  
London: \$ 1.5743 (1.5738)  
DM 2.4482 (2.438)  
FF 8.3843 (8.338)  
Sfr 2.8225 (2.828)  
£ Index 78.5 (78.7)

**DOLLAR**  
New York: Lintas: DM 1.5525  
FF 5.3115  
Sfr 1.2885  
Y 98.7

**YEN**  
New York: Lintas: DM 1.5551 (1.5443)  
FF 5.3113 (5.2803)  
Sfr 1.2873 (1.2855)  
£ Index 62.3 (61.9)

**YEN**  
Tokyo: Lintas: Y 97.86

Austria	Sch22	Grana	D450	Mela	Ln550	Qatar	QF13.00
Bahrain	Dvt 250	Hong Kong	14515	Morocco	MDN15	S.Arabia	SP11
Belgium	GR15	Norway	P105	Monaco	MDN15	Singapore	SP4.50
Bulgaria	Ln5010	Spain	Ln215	Neth	P1 4.25	Slovakia	SP4.50
Cyprus	C21.10	India	R450	Nigeria	N450	S. Africa	R12.00
Czech Rep	C25.50	Israel	Sh45.50	Norway	N4517.00	Spain	P4225
Denmark	DN16	Italy	L300	Oman	QF1.50	Sweden	SP16
Egypt	EG1.00	Japan	Y500	Pakistan	P450	Switzerland	Sfr 63.30
Finland	FN14	Jordan	JN1.50	Philippines	P450	Syria	SP4.50
France	FR14	Kuwait	K45.00	Poland	P23.00	Turkey	TLN200
Germany	GR15	Lebanon	LBN1.50	Portugal	P450	Turkey	TLN200
						UAE	DP11.00

## Nato envoys back Claes as secretary general

By Bruce Clark in London

Mr Willy Claes, a Belgian socialist with controversial views on the future of central and eastern Europe, was endorsed yesterday as the next secretary-general of Nato by ambassadors of its 16 members.

The new Nato chief, at present Belgian foreign minister, will face the challenges of heading off a crisis in transatlantic relations over Bosnia, guiding Nato's debate over enlargement of its membership, and defining a new role for the alliance.

Belgian minister's first task will be to avert alliance crisis over Bosnia

The path was cleared for his appointment by the withdrawal of Mr Uffe Ellemann-Jensen, a former Danish foreign minister. Mr Claes, 55, is expected to be appointed formally at a meeting of Nato foreign ministers within two weeks.

He opposed the deployment of new US missiles in Europe in the 1980s, but more recently has defended a continuing US role on the Continent. As foreign minister, he had irritated Turkey - a Nato member - by expressing sympathy for

the plight of that country's Kurdish minority.

Washington's acceptance of Mr Claes, signalled last week, amounts to a conciliatory gesture to its European allies at a time of mounting disagreement over Bosnia.

European Nato members have said in recent weeks that US moves to authorise arms supplies to the Bosnian government might stoke the conflict and endanger the lives of UN ground troops.

Senior US military officers have expressed bitter frustration over the UN's cautious attitude to air strikes.

Supporters of Mr Claes say his experience of parrying political and linguistic differences in his native Belgium should help him to ease conflicts. However, his views on the prospects for integrating central and eastern Europe into western institutions are expected to cause continuing controversy.

At a speech in Vienna last year, Mr Claes drew a strong distinction between the political outlook of countries of Protestant or Roman Catholic heritage - such as Poland, the Baltic states, Hungary and Slovenia - and those of Orthodox Christian tradition, such as Romania, Bulgaria, Serbia and Russia.

Among the first group of states, he said, European integration was becoming a "goal within reach". In the second, progress towards democracy was much slower and more difficult.

Claes boosted by success of Belgian EU presidency, Page 2

## Mustard business for sale

# Reckitt pays \$1.55bn for household group in US

By Roderick Gram, Consumer Industries Editor

Reckitt & Colman is breaking with 185 years of history by putting its mustard business up for sale to help finance its drive to become one of the world's leading suppliers of laundry cleaners and other household products.

Yesterday Reckitt announced the \$1.55bn (£980m) purchase of L&F Household from Eastman Kodak, and offered for sale Colman's mustard and other UK food and drink businesses, including Robinson's barley water.

Sir Michael Colman, chairman and last family member in the business founded five generations ago in a Norwich mill, said it was a difficult decision to sell Colman's.

He believed, however, that the business would be better run by a group with a strong food strategy now that Reckitt was concentrating on disinfectants, cleaners, air fresheners and insecticides.

The acquisition of L&F, a big US household product supplier, will be part-financed by a one-for-eight rights issue at 500p a share to raise £200m. It will enhance Reckitt's position in the US with leading brands such as Lysol, the disinfectant, and will give it a springboard for global expansion, the group said.

Mr Vernon Sankey, chief executive, said: "We will have the capacity to compete globally against the majors and more effectively in the US."

Reckitt will rise from about eighth to the top four in the US and global household products markets, he added. In its product categories, it will be on a par with companies such as Colgate, Palmolive and Procter & Gamble. The City welcomed the purchase for its strategic value, given Reckitt's second-string status in the US. Its shares closed 43p down at 555p because of the deeply discounted rights issue price and some doubts over Reckitt's assertion that the deal would enhance its earnings this year.

With the sale of L&F, Kodak has almost completed the \$7bn disposal programme launched in May by Mr George Fisher, its new chairman. L&F's other arm - do-it-yourself products such as wood finishes - is the last main asset to go.

To pay for L&F, Reckitt is increasing its debt from about £300m, including a convertible capital bond, to £1.1bn, which will raise gearing from about 50 per cent to 160 per cent. It emphasised, however, that its interest costs would be covered more than five times by operating profits.

Moreover, it expected to bring debt back down to pre-deal levels within three years, thanks to some £400m from piecemeal disposal of the UK food and drink

Continued on Page 16  
Lex, Page 16  
Cleaning up its act to fight the giants, Page 17  
London stock market, Page 27



Russian president Boris Yeltsin shrugs in response to reporters' questions as he arrives in New York at the start of his five-day US visit

## Clinton lifts US sanctions on Haiti

By George Graham in New York

The US yesterday announced the lifting of all its unilateral economic sanctions against Haiti, except those targeting the Haitian military junta and its supporters.

In a speech to the United Nations General Assembly, President Bill Clinton said the US would act as quickly as it could, within the framework of the UN-ordered embargo, to restore water and power to Haiti.

Leaders scheduled to address the session included Mr Boris Yeltsin of Russia, who was reported to have brought a new nuclear disarmament proposal with him to the UN.

Mr Clinton said the US had "no desire to be the world's policeman, but we will do what we can to help civil societies emerge from repression".

Acknowledging reluctance both in the US and elsewhere to get

involved in the world's trouble spots, Mr Clinton said that nevertheless great progress had been made towards peace in areas such as South Africa, the Middle East and Northern Ireland.

Speaking as Mr Gerry Adams, the leader of Sinn Féin, continued his speaking tour of the US, Mr Clinton claimed some of the credit for advancing the "earnest search by the people of Northern Ireland and Great Britain and Ireland to end centuries of division and decades of terror".

The UN Security Council resolution which imposed general

sanctions on Haiti does not provide for their removal until General Raoul Cédras and the military leaders who ousted President Jean-Bertrand Aristide in 1991 have left power.

That may not be until October 15, under the terms of the agreement that averted an invasion but led to the current military occupation by the US. But Mr Clinton urged other countries to follow the US in lifting unilateral measures such as a ban on air travel.

In Haiti, he said, a combination of creative diplomacy, the influ-

ence of economic power and the credible threat of military force had brought success. But Haiti's people must show patience and restraint to make the transition to a peaceful democracy.

Mr Clinton warned that the Bosnian capital of Sarajevo "once again faces the prospect of

Counting on the Americans, Page 6: US warns Moscow on complacency, Page 7: Yeltsin's link to capitalism, Page 8: Editorial comment, Page 15: The bear's new clothes, Page 19

## Tighter hedge fund rules urged to stop market manipulation

By John Gapper, Banking Editor, in London

Stronger requirements for hedge funds and others to disclose large trades in smaller government bond markets may help to prevent those markets from being manipulated, according to a study by officials of the International Monetary Fund.

The study into trends in international capital markets argues that the absence of regular information on position-taking in bond markets makes it hard to determine the impact of hedge funds, or detect instances of market manipulation.

Although it says there is no evidence that hedge funds, which are thought to have capital of up to \$100bn, collude to move prices, it points out that they "often seem to react similarly to a given set of market opportunities".

The study says that information on large trades might be "particularly useful in the smaller government securities

markets, where the action of a set of players is likely to have a larger potential impact on prices".

Hedge funds have attracted controversy since their role in trading European currencies in the 1992 exchange-rate crisis two years ago was disclosed, and the study analyses regulatory concerns over their activities.

It finds no clear evidence that the 800-900 hedge funds, which try to give private investors high returns by leveraging capital and making bets on foreign exchange and bond markets, have increased volatility in bond markets.

Instead, it says hedge funds add to liquidity in bond markets. It says governments and central banks have found cases where only hedge funds have been willing to buy bonds as prices have fallen, and so have stabilised markets.

The study, released to coincide with the IMF/World Bank annual meetings in Madrid next week,

reports the view of one country's supervisory authority that "hedge funds have become the 'buyer of last resort' in some of these markets".

However, it says the sums funds have to deposit with banks in order to borrow cash to trade on bond markets - typically 2 per cent to 4 per cent of the facility - may be too small to prevent markets from becoming excessively leveraged.

It points out that hedge funds are calculated to wield up to four times the equity capital of large US securities firms. More than half the capital is thought to be in "macro" funds that make bets on changes in interest and exchange rates.

International banking supervisors are collecting data to give a better picture of banks' credit exposure to hedge funds.

International Capital Markets: Developments, Prospects and Policy Issues; IMF Publication Services, 700 19th Street NW, Washington, DC 20431; \$30.

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## NEWS: EUROPE

# Big Russian budget shortfall under fire from military

By John Lloyd in Moscow

The Russian budget, its income cut almost in half because of a huge shortfall in tax revenues, came under attack yesterday from two of the strongest lobbies in Russia: the military and the Energy Ministry.

According to one senior official, lack of money is causing Russia to default on its commitments to disarm - a subject now being discussed between Presidents Boris Yeltsin and Bill Clinton in Washington.

The ferocity of the attack, coming as the political season opens once again with the convening later this week of the two houses of parliament, sig-

nals what will be a sustained effort to break the will of the Finance Ministry and the prime minister to hold the line on relatively low inflation and a limited budget deficit.

The attack also coincides with serious discussions with the International Monetary Fund on further assistance for Russian reforms, in which ministers will make a strong pitch for assistance based on their performance in bringing down inflation to 4 per cent a month.

The Ministry of Defence, already smarting from receiving a little over half of what it said was essential for minimum performance, said yesterday that even the low figure

British and Russian governments yesterday became "serious partners". In the words of deputy prime minister Alexander Shokhin, writes Liam Halligan.

Speaking at the Russian embassy in London Mr Shokhin said bilateral consultations originally announced in May 1992 had come to fruition in the form of a \$800m (£506m) "credit guarantee". Together with the UK president of the Board of Trade, Mr Michael Heseltine, Mr Shokhin singled out several groups of projects which mark the promotion of Brit-

ish companies in the Russian federation.

The projects focus on the development of Russia's telecommunications infrastructure, the provision of medical and radiological equipment to be supplied by Philips and technical support for Russia's petrochemical industry. The involvement of British tobacco and car industry was also mentioned.

Among other developments announced was the possibility of assistance with the construction of a further international airport terminal in Moscow in return for the

granting of extra corridors to British carriers.

It was also announced that Mr Shokhin yesterday signed a \$100m credit facility with the EBRD to be followed up with a \$200m package from the World Bank. The latter will be signed in Washington tomorrow.

The Russian contingent also said it was now "ready to declare repayments" of some \$600m of commercial debt, including \$200m owed to UK companies, most of which is a legacy of Soviet days.

stopped working, no new weapons research work is being financed and the Defence Ministry will not receive a newly developed piece of equipment until 2000.

Mr Mozgalev also claimed that "because of the lack of funds, Russia is not fulfilling one of its international agreements to reduce its armaments". Only 22 per cent of the planned budget for disarmament had been received.

At the same time, the Ministry of Energy and Heating has claimed that supplies of heating fuel for winter are in an "extraordinarily bad" situation. On September 1 only 5.4m tonnes of coal and 2m tonnes

of heating oil were stored - compared to 33.5m tonnes and 7.2m tonnes last year.

According to the RIA news agency, ministry officials are particularly concerned about supplies, especially of coal, to the far east and extreme north of the country. Nuclear power stations are also in crisis.

The Energy Ministry with the Ministry of the Economy is preparing a government announcement on supplying the economy with fuel for the autumn and winter period 1994-95, a decision which seems to raise further pressure on the Finance Ministry to open the coffers or consign millions of Russians to a cold winter.

## Claes boosted by success of Belgian EU presidency

By Lionel Barber in Brussels

Mr Willy Claes, who is virtually certain to be the next secretary general of Nato, is a hard-driving politician with more than 20 years' experience in the Belgian government, latterly as foreign minister. Though Mr Claes has little direct experience of military affairs, he probably owes his present job to a highly effective performance during the Belgian presidency of the European Union between July and December 1993.

Despite an occasional short fuse, Mr Claes coaxed and cajoled his colleagues into compromises on trade, budgetary matters and institutional affairs which reinvigorated the EU after the debilitating debate over ratification of the Maastricht treaty.

"Willy Claes is an exceptionally talented individual. He is open-minded, efficient and well organised, with strong administrative skills," says Mr Karel Van Miert, the Belgian commissioner for competition policy in Brussels.

Born in Hasselt, in north-east Belgium, Mr Claes was initially torn between following in his father's footsteps, as a professional musician, and launching a career in politics.

He entered parliament at the age of 30 and became one of Belgium's youngest ministers,



Claes: hard-driving

that Mr Claes stands as a serious contender for the top Nato post in his own right, having proved to be a "safe pair of hands" as foreign minister for the past 2½ years handling many tricky diplomatic problems not only in Europe but also in the former Belgian protectorates of Rwanda and Burundi and in the ex-colony of Zaire.

Though a long-standing advocate of deeper European integration, Mr Claes is also an avowed Atlanticist. As he remarked in a speech to Chatham House in London last February, Europe's strategic defence "will remain in Nato". But he also noted increasing US enthusiasm for Europe taking greater responsibility for security issues on the continent.

At one point, he asked: "Why not make peacekeeping into a common European policy?"

His initiative stemmed partly from his own disillusion with the EU's failure to deal more decisively with the crisis in former Yugoslavia in its early stages, though he points to the significant humanitarian aid effort which the Union has since mounted.

In future, Mr Claes will need all his negotiating skills - as well as his musical instinct for harmony - to succeed in bringing all of Nato's partners together.

in 1972, at the age of 34.

Often tipped as a potential prime minister, Mr Claes, 55, would probably never have made it to the top in Belgium. Like Mr van Miert, he comes from the Flemish Socialist party, the minority partner in the coalition government.

Some suspect that Mr Claes's appointment to succeed Mr Manfred Wörner was indirectly boosted after the Belgian prime minister Mr Jean-Luc Dehaene, the Franco-German favourite to succeed Mr Jacques Delors as president of the European Commission, fell victim to a British veto last summer.

But other observers believe

## Chronic weakness of liberal FDP raises doubts about Bonn election outcome

### Bavarian poll may point to hung parliament

By Quentin Peel in Bonn

The outcome of Germany's general election in less than three weeks still hangs in the balance, in spite of a clear victory on Sunday for Chancellor Helmut Kohl's closest allies in the state of Bavaria.

The chances of a hung parliament, with a grand coalition between Mr Kohl's Christian Democratic Union (CDU) and the opposition Social Democratic party (SPD) the only means of forging a clear majority, remain real, according to most political analysts.

One key element in the calculation is the chronic weakness in the polls of the Free Democratic party (FDP), the junior partner in Mr Kohl's coalition, which slumped to only 2.8 per cent of the vote in Bavaria, losing all its seats in the state parliament. The setback was the sixth successive time the liberal, free-market party has failed to gain the required 5 per cent support needed to win seats in a state election.

Several recent opinion polls suggest that the recovery of Mr Kohl's CDU and its Bavarian

sister party, the Christian Social Union (CSU), may have peaked at a combined vote of around 41 per cent, with the SPD still picking up a little support at around 35 to 37 per cent.

The other unknown factor is the performance of the Party of Democratic Socialism (PDS), the former East German communist party, which could win more than 30 places in the German Bundestag and hold the balance of power, thanks to pockets of strong support in several east German cities.

Leaders of the SPD insisted yesterday that the race remained wide open, while Mr Kohl himself warned his supporters against any tendency to think it was already won.

"It would be quite wrong to think that the election is already decided," he said after a meeting of his party executive for every vote. "We have no votes to lend or to give away."

The chancellor remains convinced that the FDP will be represented in the Bundestag, in spite of repeated weakness in state elections, because of the long-standing tradition of



Bavarian premier Edmund Stoiber of the CSU shakes hands with Renate Schmidt, leader of the Bavarian SPD, which improved its share of the vote, before a Munich TV interview yesterday.

German voters giving it their decisive second votes, in favour of a party list rather than an individual candidate.

The latest polls still give the FDP around 8 per cent support on the basis of second votes, which should be just enough to give the ruling coalition a majority after October 18.

Mr Klaus Kinkel, the FDP party leader and foreign minister, was putting a determinedly brave face on the party's plight yesterday, before he flew off to the UN General Assembly. "We are not giving up," he said.

The opposition Social Democrats, however, are clearly gunning for the FDP vote, and hope the series of disastrous defeats will persuade voters that even a second vote for the FDP is scarcely worthwhile.

"Our aim is to make ourselves so strong that it will be impossible to rule without us," Mr

Günter Verheugen, SPD general secretary, said yesterday.

The final result in Bavaria gave the CSU an absolute majority, with 52.8 per cent, down from 54.9 per cent in 1990, while the SPD improved its vote by 4.1 points to 30.1 per cent. Apart from the FDP, the main losers were the far-right Republicans, who scored only 3.9 per cent in the state where they are supposed to be strong-

## Belarus looks for a way ahead

By Anthony Robinson, recently in Minsk

Mr Alexander Lukashenko, elected president of Belarus two months ago, has been furiously rethinking the country's future direction since President Boris Yeltsin refused to burden Russia with the costs of a new economic and currency union with the former Soviet republic.

Election promises, including a pledge of full employment and the wholesale sacking of "corrupt" officials have been thrown out the window following the collapse of the main plank in Mr Lukashenko's election campaign, a close Russian connection. Instead, he has imposed steep rises in the price of bread, milk and vodka to cut the burden of subsidies and block the haemorrhage of artificially cheap foodstuffs to Poland and Russia.

Last week he announced that the Belarus rouble, called the Zaitsev (hare) and nicknamed the "Belarus bunny", would be the sole legal tender, reinforcing the position of Mr Stanislav Bogdankevich, the pro-reform president of the Belarus central bank who was one of the officials threatened with dismissal during Mr Lukashenko's election campaign.

Instead of the promised bailout from Moscow the "programme of economic priorities" outlined by the president last weekend emphasises self-help and painful macro-economic stabilisation. The

main aim is to reduce monthly inflation from around 30-40 per cent to 10-11 per cent by the end of the year and 7 per cent a year later.

Many details still have to be fleshed out in a programme which was put together mainly by Soviet-era bureaucrats. Mr Vladimir Karyagin, president of the Belarus Union of Entrepreneurs, complains: "The programme has no strategic view with far too much emphasis on controls and not enough on incentives."

Mr Karyagin says resolving the country's economic problems requires encouragement for a private sector which hardly existed four years ago and remains small. The advocates of more private enterprise believe they have three cards up their sleeve. The first is Mr Lukashenko's desperate need to succeed. The 40-year-old former army political commissar and collective farm manager waged an unashamedly populist election campaign which swept away Mr Vycheslav Kebich, an old-style communist apparatchik. But now he has to deliver higher living standards without the hoped-for Russian economic assistance.

The second is the presence in Minsk of representatives from the international financial institutions whose much needed financial assistance and technical advice is conditional on the government keeping to policy targets yet to be agreed.

In many ways the most convincing card is the example of its next-door neighbour - Poland. But Mr Karyagin says: "We can't just copy the Polish plan [the shock therapy stabilisation programme named after the former Polish finance minister]. Poland always had private agriculture and a large and influential diaspora and Poles always had a few dollars in their pockets. They also received large-scale western financial aid. But the fact that the Poles took certain policy decisions and received the results that we can see helps us enormously in arguing with our bureaucrats."

Many Belarusians still find it hard to imagine an independent existence for this flat land of 10m people with no naturally defined borders, which was totally integrated into the Soviet economy. Most of the big military plants which produced over 70 per cent of industrial output are now idle, while the country remains dependent on Russian oil and gas, apart from minimal local oil production of around 2m tons annually.

In an interview inside the Stalin-era government offices, still graced outside by an enormous jet-black sculpture of Lenin, Mr Lukashenko put the emphasis on self-help but also appealed for more foreign investment. He has chosen Mr Vladimir Sopronov, a young parliamentary deputy, as the head of foreign economic policy co-ordination, and prom-

ised to take personal charge of land sales to foreign investors "to protect their interests and make sure they don't have to pay bribes to corrupt officials."

The aim now is to profit from the country's skill base and excellent transport infrastructure by pursuing macro-economic stabilisation policies which have laid the basis for economic prosperity and national sovereignty not only in neighbouring Poland but also in Hungary and the Czech Republic.

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## EUROPEAN NEWS DIGEST

## Estonian PM loses office

Estonia's prime minister, Mr Mart Laar, was swept from office yesterday in a vote of no-confidence. After an emotional two-hour parliamentary debate in which Mr Laar was accused of repeatedly lying to the people, deputies voted by 60-27, with one abstention, for the radical pro-market leader to leave office. "The credibility of the prime minister has sunk below the critical line," said Mr Jaan Kaplinski of the opposition Centrist party.

Deputies accused Mr Laar, a member of the conservative Fatherland party who has held office since October 1992, of destroying public confidence by deceit, high-handedness and promoting secrecy in government. Mr Laar had won the backing of western financial organisations with a tough line on spending and budget policies. He will remain in office until a new candidate is chosen in talks among parliamentary parties in the next few days. *Reuter, Tallinn.*

## Sofirad chief Dutaret quits

Mr Jean-Louis Dutaret yesterday resigned as head of Sofirad, a French state holding company with media interests, following a judge's decision last week to investigate his involvement in the Carignon affair. The judge is trying to establish a possible link between Sofirad and the Baux bankrolling a newspaper supporting Mr Alain Carignon's re-election as mayor of Grenoble and the utility's subsequent gain of the city's water contract. Before heading Sofirad last January, Mr Dutaret was a close aide to Mr Carignon, who resigned as communications minister in July to contest the same charge of being "in receipt of misused corporate funds" as levelled against Mr Dutaret. Meanwhile, pressure is growing on Mr Gérard Longuet to resign as trade and industry minister in the row over improper funding of his holiday house. *David Buchan, Paris.*

## Russian proposal for Caspian

Russia yesterday proposed a multinational co-ordinating committee to decide on the exploitation of oil and gas reserves in the Caspian Sea, following a series of objections from Russian ministers to the \$8bn (\$25bn) oil production deal signed last week between Azerbaijan and a group of big foreign oil companies to drill in the Azeri section of the Caspian. Mr Yuri Shafarmanik said that Kazakhstan and Turkmenistan, two other former Soviet states bordering the Caspian, had already agreed to establish the committee. Both Mr Alexander Shokhin, the Russian deputy prime minister for the economy, and Mr Andrei Kozirev, the Russian foreign minister, have said the deal must not go ahead because of the ecological damage it would cause to the Caspian sea - where the best caviar in the world is to be found. Mr Shokhin has called for the resignation of Russian officials who agreed to the deal. The consortium of oil companies includes British Petroleum, Statoil, Amoco, Unocal, Pennzoil, Ramco, McDermott, Turkish Petroleum and Russia's Lukoil. *John Lloyd, Moscow.*

## Kravchuk elected as MP

Former President Mr Leonid Kravchuk has won election to parliament, just three months after being narrowly defeated in his bid for a second term as Ukraine's leader, election officials said. Mr Kravchuk, a former Communist party chief, received 87 per cent of the votes cast in Sunday's by-election in a two-candidate race. His challenger for a seat in the 450-seat parliament, Mr Nikolai Novosilsky, got only 10 per cent of the votes, said Mr Valentin Kirnenko, deputy chairman of the Central Electoral Commission. Mr Kravchuk, 60, was Ukraine's first president after the former Soviet republic gained independence in 1991, and was defeated in the presidential election by former prime minister Leonid Kuchma. He says he intends to establish his own political party and rebuild his power base. *AP, Kiev.*

## 200 Kurdish rebels killed

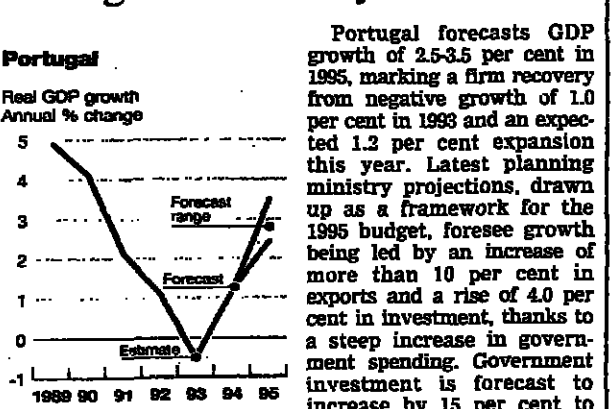
More than 200 people have died in eastern Turkey since government security forces began a "final push" late last week against mountain strongholds of separatist Kurdish guerrillas, according to diplomats in Ankara. Government officials say that 16 Kurdish fighters died in the eastern province of Tunceli and that the operations ended at the weekend. But a European diplomat put the death toll among the guerrillas alone at 200 and said security forces would continue their sweep to Turkey's borders with Iran and Iraq to stamp out the estimated 3,000 rebels based in the region. The government has said it will allow six pro-Kurdish former MPs now facing treason charges to stand for election to parliament again. *John Barham, Ankara.*

## Strike halts Portuguese trains

Portugal's international and high-speed inter-city trains were halted yesterday as railworkers walked out on a five-day strike over working conditions. All rail transport between Portugal and Spain will be cancelled for the week, as well as high-speed service between Portuguese cities, the state rail company CP said. There are no alternative arrangements. Inter-city travellers will be rerouted to the regional lines, in many cases doubling the travel time. The walkout is the third in two months by CP workers, who are demanding their work week be reduced from 42.5 to 40 hours and their contract conditions be improved. Some 270 trains scheduled for the week - including 80 international trains - have been cancelled because of the strike. *Reuter, Lisbon.*

## ECONOMIC WATCH

## Portuguese recovery forecast



Portugal forecasts GDP growth of 2.5-3.5 per cent in 1995, marking a firm recovery from negative growth of 1.0 per cent in 1993 and an expected 1.3 per cent expansion this year. Latest planning ministry projections, drawn up as a framework for the 1995 budget, foresee growth being led by an increase of more than 10 per cent in exports and a rise of 4.0 per cent in investment, thanks to a steep increase in government spending. Government investment is forecast to increase by 15 per cent to E702.1bn (£28bn), of which European Union funds will account for 45.4 per cent. Most government investment will be channelled into public works, followed by education, agriculture and health. The government expects inflation in 1995 to be 3.5-4.5 per cent. *Peter Wise, Lisbon.*

■ EU industrial production in June rose 5.1 per cent from a year earlier, the EU's statistics office said. In May, industrial production rose 4 per cent year-on-year. Seasonally adjusted production in the quarter to June was up 2.2 per cent from the first quarter of the year. The rises are mainly a result of increased demand for capital goods and consumer durables.

■ The Dutch index of manufacturing orders in hand rose to 104.6 in August from 103.7 in July, the Central Bureau of Statistics said. Meanwhile, it reported the Danish August wholesale prices were unchanged from last month and were up 1.3 per cent from August 1993.

■ Portugal's industrial production index rose 1.9 per cent in June, after staying flat in May following a 2.0 per cent fall in April, the National Statistics Institute said.

■ Germany's capital account surplus rose to a provisional DM10.1bn in July from a revised surplus of DM6.1bn in June, the Bundesbank said. A provisional balance of payments surplus of DM1bn in July was reported compared to a surplus of DM4.4bn in July.

## Measuring up for a wider EU

After several false starts, the European Union is developing a strategy to incorporate the former communist countries of central and eastern Europe.

A glimpse of the new *Ostpolitik* appeared last week in Paris when France and Germany called upon the European Commission to produce a white paper next spring setting out a plan for enlargement to the east.

The Franco-German proposal borrowed heavily from an existing Commission paper in Brussels, but the debate about "widening" the Union is moving away from theoretical musings to the identification of practical obstacles to membership.

These remain formidable. Even the most advanced candidates - Hungary, Poland, the Czech Republic and Slovakia - have only a third of the per capita income of the Twelve. Under current rules, membership for these four alone would require a 75 per cent increase in EU spending on agricultural subsidies and aid to poorer regions, according to a recent study by Professor Richard Baldwin of the Centre for Economic Policy Research.

Brussels has therefore concluded that it is better to defer an acrimonious debate about farm reform and structural funds. No doubt this will make it much more difficult to carry out the revolution in EU com-

## Lionel Barber on an emerging strategy for Union enlargement

mon agricultural policy which many believe is the pre-requisite for the next round of enlargement; but Commission officials favour putting the onus on the east Europeans to adapt in order to prepare for membership, perhaps around the turn of the century.

The latest idea is to emulate Lord Cockfield's celebrated 1985 white paper which set out a list of measures for the (then) European Community to complete the single market by 1992. Brussels would map out a road for integration covering, say, the difficulties of adapting its economic, banking, legal and transport systems to EU norms.

This process is the logical extension of trade liberalisation which began, grudgingly, in 1991 and has since accelerated. Free trade in industrial goods will take effect in 1995 (steel in 1996 and textiles in 1997). But numerous non-tariff barriers continue to exist. One approach would be to list up to 150 measures for the east Europeans to adopt to make their legislation EU-compatible. In return, the EU would phase out anti-dumping measures and thereby extend the single market eastwards, a Commission official said.

Germany, which holds the

rotating EU presidency, is also pressing to extend ministerial contacts with the central and eastern Europeans in official council session. Despite misgivings among some member states that this amounts to "membership by the backdoor", Germany has persuaded its partners to hold an important session on October 31 in Luxembourg.

Earlier this year, France warned Germany not to push too fast on enlargement. French officials were irritated by German pressure tactics to wrap up accession negotiations with the Nordic countries and Austria, but their broader concern was that a premature, German-led drive to open the next round of enlargement to the East would weaken the Union and France's own position vis-à-vis Germany.

On the surface, the Franco-German tiff has resulted in tighter co-ordination. Germany, which hands over the presidency to France on January 1, is trying hard to keep its closest ally on board through joint planning sessions on eastern Europe.

In return, France has quietly accepted that potential EU enlargement must embrace the EU candidates (Poland, Hungary, the Czech and Slovak

republics, Bulgaria and Romania) as well as the three Baltic states of Latvia, Lithuania and Estonia, and Slovenia.

A French official says that France has come round to the view that enlargement to the East is inevitable; but the question is how to carry it out without weakening the Union, or diluting it to a free trade area. Hence the recently launched debate on how best to organise a Union of between 16 and 25 members, and Franco-German noises in favour of a "hard-core" of committed integrationists.

Polish and Hungarian officials say they welcome this debate on "variable geometry" because it makes East European aspirations to become members of the EU more credible. But they are keeping a close eye, too, on their short-term interests, specifically the package of measures which may emerge from the EU heads of government summit in Essen in December.

Among the priorities are a firm calendar for starting accession negotiations and observer status for the inter-governmental conference to review the Maastricht treaty. The East Europeans also hope to see favourable adjustment of agricultural levies as a result of the impending implementation of the Uruguay Round. No one - at least in eastern Europe - is taking anything for granted.

## Germany plans new ship to help rebuild its navy

By Michael Lindemann in Bonn

The German armed forces are planning a new troop transporter and floating headquarters which would, for the first time since the second world war, give them a naval presence worldwide.

Since 1945 the navy, which is much smaller than the army or air force, has had the capacity to operate mainly in territorial waters and has had to make do with equipment which dates from the war.

Plans for the new ship, referred to by the defence ministry as the All Purpose Ship, were drawn up after the embarrassing situation last year when Germany did not have suitable ships to withdraw its troops from Somalia, where they were part of the United Nations force.

Sources also suggest the vessel is designed to show that Germany is taking its new international responsibilities seriously, following a decision by the constitutional court in July allowing German troops to be deployed on missions worldwide.

The ship would be able to transport up to 700 soldiers,

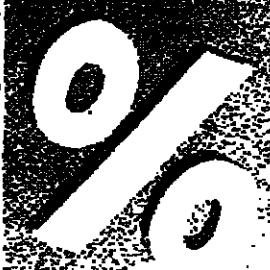
lighter combat vehicles and about six helicopters. It will be large enough to be used as a floating command centre for operations overseas and will also have hospital facilities.

"We are trying with as few ships as possible to create as many options as possible," the Defence Ministry said.

The ministry would not confirm how much the ship will cost but an article in *Der Spiegel* magazine suggested that about DM500m (£205m) would be spent, involving a variety of unspecified savings to keep within the overall defence budget, which has been set at DM47.9bn for the next four years.

Sources indicate the ship would have a displacement of around 20,000 tonnes and would be operational by the year 2000.

The navy will also order 15 new corvettes which could be used alongside the All Purpose Ship. However, the ministry emphasised that the corvettes, which will come into service around 2005, would replace the 38 torpedo boats now in use. "Altogether we will be a smaller but more modern navy."



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HIB/FT/02

## NEWS: INTERNATIONAL

Unilever, UK bank reshape holdings

## Two groups plan Nigeria divestment

By Paul Adams in Lagos

The UK-Dutch consumer group Unilever and Britain's Standard Chartered Bank are divesting from their Nigerian affiliates over the next month with two of the largest ever share issues coming to the country's flagging stock exchange.

Both companies emphasise their decisions are dictated by worldwide strategy, not by the recent political instability and economic downturn in Nigeria. But sales of their assets in UAC Nigeria and First Bank of Nigeria respectively coincide with low investor confidence in Nigeria's economy.

Both cases underline the problems created by the 40 per cent statutory limit on foreign shareholdings in manufacturing, energy and banking companies in Nigeria.

UAC evolved from a pioneer trading company in west Africa into Nigeria's largest manufacturing and distribution conglomerate, with the 60 per cent Nigerian-owned shares held by individual and institutional investors. Unilever will keep its 40 per cent share in UAC's Tractor & Equipment division (the Caterpillar dealership), which is to be a separate joint venture, and acquire all the shares in the consumer goods division.

These and the cash from the sale of the rest of its shares will be re-invested in the newly formed Unilever Nigeria. Unilever's UAC holding was val-

ued last December at about \$48m at the official exchange rate of N22 to the dollar. Since then, the naira's parallel market rate has weakened from around N48 to N75. After tax, profits in 1993 came to N432.3m (\$19.6m), an increase in naira terms from 1992 of 29 per cent, below the rates of inflation and devaluation. Inflation is running at nearly 70 per cent and the naira's sharp devaluation has eroded domestic demand and put pressure on profits.

Standard Chartered agreed yesterday to reduce from 38 to 9.9 per cent its stake in First Bank of Nigeria, which last year was one of two quoted companies in Nigeria to make pre-tax profits over N1bn.

The shares will be sold via a public offer beginning next month. Last year's privatisation of the Nigerian government's majority stake made Standard Chartered the biggest shareholder, but did not allow it to acquire a controlling interest. Under UK law this made the group responsible to the management of the bank although it lacked a controlling interest, unless it cut its stake to less than 10 per cent.

The sale of the government's majority holding in Nigeria's other leading commercial bank, United Bank for Africa, to Nigerian private investors has made another foreign bank, Banque Nationale de Paris, the largest shareholder without a controlling stake.

## Sri Lanka moves on Airbus probe

The Sri Lankan government has appointed a former Supreme Court judge to investigate the purchase of five aircraft worth \$643m (2407m) by Air Lanka, the European aircraft maker, writes Mervyn de Silva in Colombo.

Mrs Chandrika Kumaratunga, the prime minister who took office a month ago, has asked Mr O M Seneviratne to head a commission of inquiry into the contract, which was signed in August 1991, under the rule of the previous United National Party government.

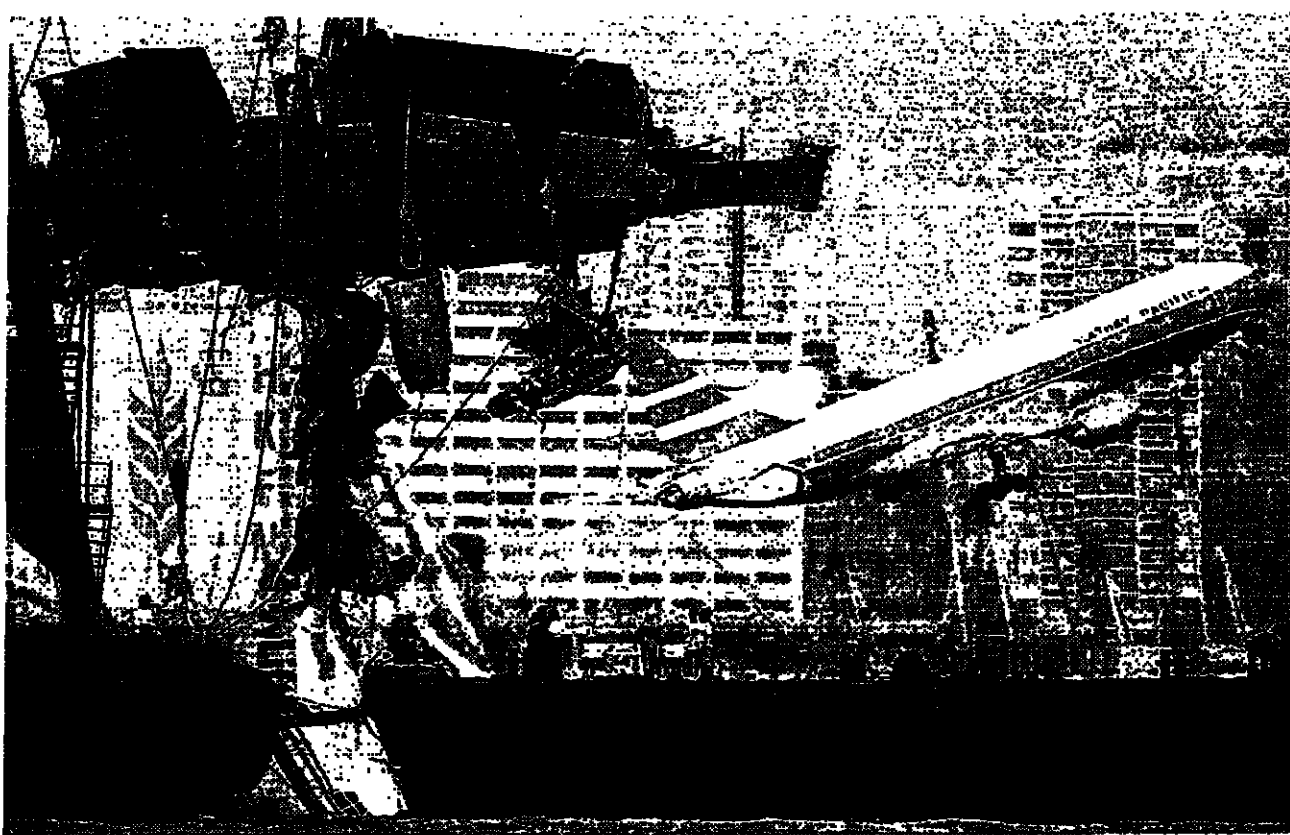
The purchase has been criticised for being secretive and too costly.

The contract is the largest of several transactions involving foreign companies which are being investigated after widespread allegations of financial irregularities.

Allegations of irregularities by members of the UNP government, which held power for 17 years until its general election defeat last month, played a big role in the election.

Mrs Kumaratunga's victory was due partly to her promises to root out corruption. Air Lanka originally contracted to buy five Airbus A340-300 jets - three to be delivered in 1994 and 1995, and two for delivery in 1996 and 1998. The orders were placed amid controversy in Sri Lanka about whether scarce foreign exchange should be spent on the aircraft.

Whatever the inquiry finds, the newly elected government would find it costly to scrap the contracts because Air Lanka has paid a pre-delivery deposit of \$74m.



The wreckage of a Hercules L100-30 transport aircraft (on left) which crashed into Hong Kong harbour last Friday is lifted by crane on to a barge next to the colony's airport as another aircraft takes off yesterday. Six Indonesian crew died in the crash. Associated Press

## HK 'needs to speed things up'

By Louise Lucas in Hong Kong

China and the government that will take over Hong Kong after Beijing regains sovereignty in 1997 would suffer if the work of the Joint Liaison Group (JLG), set up to oversee the detail of the handover, was not speeded up, Mr Chris Patten, the governor, said yesterday.

On the 10th anniversary of the signing of the Joint Declaration agreeing terms for Hong Kong's transfer, he said: "We are beginning to run out of time; the last meeting registered little progress. We've got to do better. The issues are complicated but mostly not political. But they are important. China and the SAR (post-97 Special Administrative Region) will suffer if they are not resolved."

Echoing the words of Mr Douglas Hurd, UK foreign secretary, who visited the colony 12 days ago, Mr Patten urged an imaginative and patient approach, suggesting some tinkering with the existing machinery might be needed to attack the growing backlog of issues now with the JLG. "Douglas Hurd will want to discuss with China's Vice-Premier Qian Qichen whom he's meeting on Thursday, how we can get around some of these obstacles, how we can get the forward movement we need."

Last week's JLG talks were muddled by a deadlock on Hong Kong's badly needed ninth container terminal. China intends to veto the franchise. Other pressing issues on the JLG table cited by Mr Patten yesterday are freedom of travel and the local re-enactment and adaptation of some 800

laws and ordinances. Mr Patten used the occasion to commend the Joint Declaration, initiated on September 26, 1984, and to enumerate the milestones reached by Hong Kong since then.

These were: a doubling of GDP in real terms every decade (Hong Kong is today the world's eighth biggest trading economy and has a per capita GDP of \$20,000 (\$12,667) and a 15-fold increase in the capitalisation of the stock market.

"The Treaty sets a clear framework for Hong Kong's future up to and well beyond 1997. No one pretends it is perfect, nor that it has dispelled every uncertainty. But imagine what Hong Kong would have been like without the Joint Declaration, as 1997 loomed ever larger and the uncertainties grew."

## Algerian radical leader shot dead

Algerian security forces shot dead Mr Cherif Ghoumi, leader of the country's most feared fundamentalist group, the Islamic Armed Group (GIA) in Algiers yesterday, Francis Ghiles writes.

The GIA leader whose *nom de guerre* was Abou Abdallah Ahmed had reiterated his movement's opposition to any dialogue with President Liamine Zedrou after two leaders of the banned Islamic Salvation Front (FIS), were transferred from jail to house arrest two weeks ago.

The GIA has claimed responsibility for the murder of most of the 60 foreigners killed in Algeria in the past year, and has burned down more than 300 schools and threatened to murder teachers working for "an impious state".

Its campaign against intellectuals claimed another victim yesterday when a lecturer at the Economics Faculty of Oran, Mr Abderrahmane Fardeh, was shot and injured.

Analysts agree that the violence unleashed by the interruption of elections the FIS was poised to win in January 1992 has cost 28,000 lives, two-thirds lost since last November after three French consular officials were kidnapped.

## Inflation jumps in South Africa

South Africa's inflation rate jumped to 9.4 per cent in August, well up on the 8.2 per cent recorded in July and over 2 per cent higher than the 7.1 per cent reached in April, Mark Suzman reports from Johannesburg. The figures are the latest in a series of worrying economic statistics for the South African government, which said at the weekend that the trade surplus had slumped to R288m (\$11.6m) in August, down from R1.66bn in July, and the lowest in nearly two years.

The higher rate of imports, at R8.07bn compared to R6.68bn in July, was partly responsible for the rising inflation rate, but the main culprit was food inflation, which rose at annualised rate of 19.7 per cent. The South African Reserve Bank yesterday raised its key bank rate to 13 from 12 per cent.

## Chief may face assault charge

Chief Mangosuthu Buthelezi, South Africa's home affairs minister and Inkatha Freedom Party leader, could face an assault charge after barging into a Durban television studio on Sunday night and forcing a political opponent, Prince Sifiso Zulu, off the air, Mark Suzman reports.

Chief Buthelezi, who had been watching the programme in an adjoining studio, apparently took exception to some remarks by Prince Zulu, and, with bodyguards, forced his way into the interview room. Prince Zulu said he intended to press charges against the chief. The entire incident was carried live on the main current affairs programme.

## Keating has little doubt Australia will be republic

By Nikid Tait in Hobart, Tasmania

Australia's prime minister Paul Keating has "little doubt" his countrymen will endorse a move to make Australia a republic and sever its ties with the British Crown, he said in Hobart yesterday.

Opinion polls suggest that a majority of Australians still support the current constitutional structure, albeit by a declining margin. But Mr Keating told the conference of his ruling Labor Party in Hobart that "effectively we have handed the baton of the republic to the Australian people."

"I am in little doubt that they will carry it across the line."

"A healthy debate is now under way," he continued. "We want to see the idea of the republic become clearer in the public mind."

"As it becomes clearer, the resolve will grow stronger." The Australian Labor party subsequently confirmed its support for any changes neces-

sary to make Australia an independent republic by the year 2001.

In a wide-ranging keynote address to the ALP conference, Mr Keating placed much emphasis on the importance to Australia's future of the "information superhighway" and on the increasing trade links with the Asia-Pacific region.

The meeting of the leaders of the Asia-Pacific Economic Co-operation forum in November, he said, was "of profound importance to Australia's exporters, farmers and workers. No one can estimate what even modest success with Apec might be worth."

The necessary ALP approval for proposed privatisation of the 23 airports run by the Federal Airports Corporation is likely to be forthcoming today after hectic backroom dealing in Hobart.

However, the airports will probably be sold on a piece-meal basis rather than as a group, and on 50-year leases.

There is also likely to be a cap on foreign ownership of 49 per cent.



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Copies of an Information Memorandum in relation to the sale will be made available to interested parties. Non-binding offers are called for by Monday 17 October 1994. Requests for copies of the Information Memorandum can be made to:

Alastair Lucas or Michael Burn

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# Protests greet Israel's new interest rates Rabin lifts ban on West Bank settler homes

By David Horowitz  
in Jerusalem

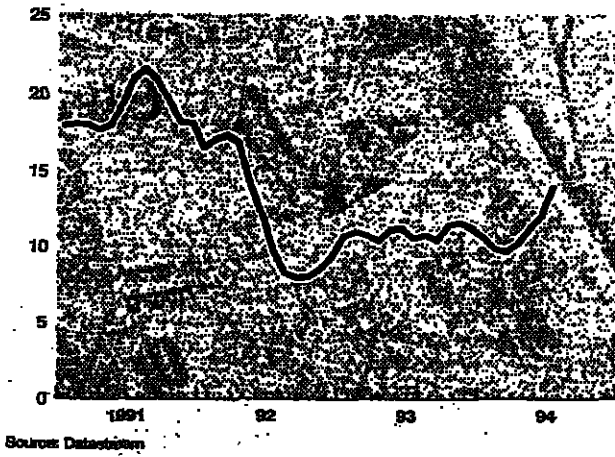
The Bank of Israel's decision to raise interest rates by a sharp 1.5 percentage points, in what looks like an increasingly desperate effort to rein in surging inflation, has brought a chorus of disapproval.

The stock market has dipped, the Histadrut labour federation has lamented the rise workers face in mortgage repayments, the Manufacturers' Association has warned of looming recession, and Mr Micha Harish, minister for trade and industry, has spoken of a dangerous lack of co-ordination between the central bank, the Finance Ministry and the various other economy ministries.

Professor Jacob Frenkel, governor of the Bank of Israel, is unmoved by the protests. He has raised interest rates no fewer than seven times since last November, including another 1.5 percentage point

## Israeli inflation: way above the target

Annual % change in CPI



increase only a month ago. He has given no firm assurance that this week's rise, to 15.5 per cent, will be the last.

The government had set a target of 8 per cent for inflation in 1994, and one of 8-11 per cent for 1995, he notes. In reality, the 1994 rate is running at about 14.5 per cent. If the 1995 goal proves unrealistic, he says, "it will really undermine

the credibility of the government's economic policy". At the back of Prof Frenkel's mind lies the memory of the early 1980s, when Israel's annual inflation rate soared to 450 per cent and the then finance minister suggested tying the Israeli shekel directly to the dollar.

A drastic austerity package finally pegged the triple-figure rate to below 20 per cent within two years, a package that included interest rates as high as 40 per cent.

Some experts believe that treatment is needed now. "If the bank really wants to fight inflation with monetary policy," says Mr Ya'acov Sheshin of the Economic Models company, "interest rates would have to double."

But Mr Harish and Mr Dan Popper, president of the Manufacturers' Association, warn that the current 6 per cent-plus annual growth is already threatened by the interest rate rises, noting the government

has plenty of other weapons in its armoury. The problem is that the government has seemed reluctant to use them.

A key component in the inflationary spiral is the rise in house prices, propelled not only by local buyers, but by foreign investors keen to buy property in an Israel on the threshold of peace.

Cabinet meetings have been devoted to tackling the issue, committees have met, prime minister Yitzhak Rabin has pledged his trouble-shooting expertise. Yet, for all the proposals, no significant increase has occurred in housing starts. Mr Avraham Shochat, finance minister, admitted last week-end he could not see anything stemming the house price rises in the near future.

It is a similar story with fruit and vegetable prices, at present the leading factor in pushing up the monthly consumer price index. The Agriculture Ministry has been resisting calls for import of cheaper pro-

duce, and only recently licences have been granted for limited imports of apples, pears and potatoes.

Mr Danny Gillerman, president of Israel's Chambers of Commerce, says the government is shooting itself in the foot, by approving high public-sector wage settlements and, recently, price increases for phones and public transport.

Overall, Prof Frenkel takes pains to emphasise the economy is in robust shape, with growth high and unemployment falling. "But there are signs it may be overheating," a bank spokesman said yesterday. "Savings are down, credit is too readily available, private consumption is rising rapidly. The time has come for more restrictive monetary policies."

Prof Frenkel's problem is that the government's only means of fighting inflation. To tackle it more effectively, he needs more co-operation from Mr Shochat and his cabinet colleagues.

By David Horowitz

The Israeli government is lifting the freeze it imposed two years ago on building new housing for Jewish settlers in the occupied territories.



Crown Prince Hassan: due to discuss peace treaty

About 130,000 Jews live in 140 settlements dotted across the West Bank and Gaza Strip.

Mr Rabin has little regard for what he calls the "ideological settlements", located close to Palestinian population centres. But he does value the security buffer provided by settlements around Jerusalem, on the Jordan border, and along the western edge of the West Bank where Israel is narrowest.

Alfei Menashe falls into this last category, and the building plans suggest Mr Rabin is keen to reinforce buffer settlements in advance of an Israeli army withdrawal from much of the West Bank as the peace process moves forward.

On taking office in July 1992, Mr Rabin froze new settlement building, and approved the completion of fewer than half of the approximately 25,000 West Bank Jewish housing units then in mid-construction. Those moves were crucial to the success of Israel-PLO autonomy negotiations.

He must be hoping, too, that the issue will not derail a meeting in Washington next week between Foreign Minister Shi-



Peres: concern not to derail talks with Jordan

mon Peres and Jordan's Crown Prince Hassan, hosted by President Bill Clinton, at which the two reportedly plan to discuss the drafting of a full Israel-Jordan peace treaty.

## Settlers prepare for Golan fight to the last

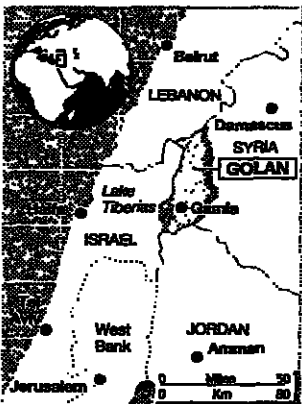
David Horowitz visits the site of most Israeli resistance to a deal to return the occupied Heights to Syria

It's a bad pun, but it seems to be working. "The keys to the Golan are in your hands," shouts the moustachioed salesman, proffering a cheap key-ring bearing a map of the Golan Heights on one side and the slogan "Peace with the Golan" on the other.

At 10 shekels (more than two £2) a time, the profit margin is healthy. And there's no shortage of customers. Well over 100,000 Israelis, have swarmed past the key-ring vendor in the past fortnight, along the dusty track that leads to the awning where a dozen Golan Heights activists are on hunger strike.

Stirred into action by a flurry of reports that Mr Yitzhak Rabin, the prime minister, is ready to give up the Heights in return for a peace deal with Syria, the hunger-strikers are becoming unlikely national celebrities, and their hilltop headquarters is an essential stop-off for all those who consider the mountainous Golan ridge essential to Israel's defence.

Until recently, Mr Rabin was



of that opinion himself. Indeed, one of the most powerful propaganda weapons in the pro-Golan campaigners' armoury is a videotape of the prime minister at the height of his pre-election oratory two years ago, declaiming earnestly that, "It is inconceivable, even at a time of peace, to come down from the Golan." Recorded on a self-revolving tape, the prime minister's stirring words boom out across the Golan site, hour

after hour, day after day, from a television on a mobile stand across the path from the key-ring salesman.

It was none other than Yitzhak Rabin who, as chief of staff, presided over the capture of the Golan in the 1967 Arab-Israeli war and who later, as prime minister in the 1970s, encouraged many of the Golan's 13,000 Jews to move here. And it was none other than Syria's President Hafez Assad, then his country's inexperienced defence minister, who relinquished the Heights.

Now Mr Assad is apparently prepared to make peace with his enemies in return for the precious land. While Mr Rabin is saying nothing, Mr Shimon Peres, his foreign minister, has as always, put the cards on the table.

"Complete peace is more important to Israel's security than the entire Golan," Mr Peres said at the weekend.

Mr Sammy Bar-Lev, the mayor of the Golan's main Jewish town, Katzrin, and one of the hunger-strikers, is dis-

gusted by the turnaround. "They've always said Rabin couldn't take the pressure. Now here's your proof. Peres and the Americans have bludgeoned him into a deal. And he's capitulated."

Hardly plump at the best of times, Mr Bar-Lev looks almost emaciated, subsisting with his 11 colleagues on a diet of water and salt tablets, camped out on a hilltop in vicious heat that three electric fans are doing little to ameliorate. On Sunday, he collapsed and was hospitalised but continues to refuse food.

He says they have a clear aim and will last for weeks if necessary to achieve it: blocking parliamentary approval for a Golan land-for-peace accord, by persuading several hawkish members of Mr Rabin's own Labour party of the validity of their cause.

Mere Knesset (parliament) approval, however, will not be enough. Having delivered that pre-election pledge, Mr Rabin recognises that he has no real mandate for a full withdrawal.

So he has promised to hold a national referendum on the issue. And it is here that the Golan protesters may have their most profound impact.

Opinion polls suggest that fewer than 50 per cent of Israelis favour even a partial pull-out. The visitors to Golan - fed the legendary account of how a few thousand Jews defied the Romans for years at this very site, before jumping to their deaths from a jagged hilltop - are having that anti-withdrawal sentiment reinforced.

In marked contrast to the noisy, but ill-supported campaigners against the autonomy deal with the PLO in the occupied West Bank and Gaza Strip, the tens of thousands of Golan pilgrims are neither overwhelmingly religious nor right-wing.

Indeed, some of the strikers and many of their supporters are card-carrying members of the Labour Party. "Rabin isn't with us any more," says Yehuda Harel, a veteran Labour man who is one of

those fasting, "but the Labour movement is. There is no other Labour movement."

In truth, many in Labour are hesitant about leaving the Golan. But if Mr Assad were to make a Sadeh-style trip to Jerusalem and declare a genuine desire for peace, a healthy proportion in Mr Rabin's party and among the electorate at large would probably put their doubts aside. With that in mind, Mr Bar-Lev argues that the referendum should be held immediately - that it is "immoral" for Mr Rabin to promise an eventual vote "when the deal is all wrapped up".

"He'll play it so that to vote against the deal will seem like voting for war. It's unethical. It's not right."

But it is good politics. And it could well mean that, for all the thousands of supporters patting Mr Bar-Lev gently on the back and shaking their heads at Mr Rabin's empty videotaped Golan rhetoric, the resistance at Golan is destined to fail again.



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## NEWS: THE AMERICAS

# Haiti plan by US for firmer control

By James Harding  
in Port-au-Prince

The US, settling into its second week of intervention in Haiti, yesterday outlined a plan to secure political institutions for the transition from military rule to the government of President Jean-Bertrand Aristide.

The plan - which includes buying civilian-held weapons from today, a guarantee to ensure security at the parliament tomorrow, and the reinstallation of the elected mayor of Port-au-Prince on Thursday - is an indication of US confidence that, after a week of evolving operational procedures, it is now in control.

The homecoming of 221 refugees, who had been at the US naval base of Guantanamo Bay in Cuba, was also seen as an indication that the US presence had allayed popular fears of political violence in Haiti.

A month-long purchasing of civilian-held weapons was



At the orders of a US Marine, a Haitian lays down his gun in Cap-Haitien at the weekend. Picture: AP

expected to start today, in an attempt to ensure public safety and to minimise the dangers of rearmament in a divided society. The US was offering to buy handguns for \$50, semi-automatic rifles for \$100, automatic rifles for \$200, machine-guns and artillery for \$300 until October 25.

The US mission in Haiti has set as a priority the disarming of the many self-appointed police auxiliaries, militia and

nationalists who have styled themselves on the ruthless Tonton Macoutes political force of the Duvalier dictatorship. US army officials would not comment on whether the voluntary sale of weapons would be followed by a campaign of force to disarm Haitian citizens.

US officials yesterday pledged to protect the 24 pro-Aristide parliamentarians who have been in exile in the US or

in hiding in Haiti. Parliament will reconvene tomorrow, following President Aristide's decision to convene the assembly so that it may draw up and vote on an amnesty law requested by the transition agreement.

The absence of pro-Aristide deputies, who have feared police violence if they attend parliament in the capital, has meant the assembly has not achieved a quorum for months.

## Counting on the Americans

James Harding finds Haitian business nervous about Aristide

In Haiti, how you count money depends on who you are.

In the slums of Port-au-Prince, the street vendors tend to give prices in gourdes, the national currency. At the restaurants and boutiques of Pétionville, the affluent town in the hills above the capital, prices come in Haitian dollars - a fictional currency but a confusing shorthand for five gourdes.

The different languages of money are more than just an illustration of the disparity of wealth in Haiti. The dollar, so called, dates back to the last US occupation, from 1915 to 1934, when the Americans guaranteed the Haitian currency at five gourdes to the US dollar. Since then, the gourde has been devalued and the guarantee has slipped.

But the Haitian business community - whose power is in the hands of a reclusive, fractious group of commercial families - may be hoping that the US again takes a position as guarantor of Haiti's economic stability.

The co-operation of these economic barons with US forces and their attitudes to the return of President Jean-Bertrand Aristide will be critical in the effort to restore democracy.

Few in the business community relish the prospect of Aristide's return. Many remember the thousands on the street and the speeches inviting the poor to take what was rightfully theirs from the wealthy, during the seven months the elected president inhabited the presidential palace.

Even though Mr Olivier Nadal, secretary-general of the Haitian Chamber of Commerce and Industry and president of his family company Nadalsa, has seen his turnover contract from \$2m (\$16m) to \$5m and his workforce shrink from more than 500 to less than 100, he is not sure that the lifting of the embargo compensates for the restoration of the populist leader. "Lifting the embargo is for sure good, but we need security in and around my factories, security to invest in my land. Aristide never gave us that."

While some people may fear President Aristide's populist credentials, many hope that three years in Washington and a return facilitated by the US will have tempered his left-wing radicalism.

"The President can do great things for this country," explains Mr Gregory Mevs, one of the most powerful businessmen in Haiti. "He is like Mao Tse-tung, a great leader, but he

needs a good Chou En-lai, a good mandarin to guide him. Maybe it'll be the US."

Mr Johnny Brandt, a businessman whose riven family's interests stretch throughout the Haitian economy, strikes a common note of *mea culpa* and acknowledges the responsibility lies with people like him. He is "scared not knowing what Aristide is going to do."

The baronial class is made up of several dozen families, most of them mulatto. The established, grass-roots are still thought to hold the keys to stability and development in Haiti. None is more influential than the Brandts and the Mevs.

The Brandt empire was founded on textile production, after O.J. Brandt, an immigrant from Germany with Jamaican connections, built the first textile mill in Port-au-Prince in 1946. The family has broken up and its business has since diversified to include an edible oil refinery, poultry production, assembly plant leasing, retailing and agricultural production.

The Mevs control another big wedge of the economy, including a monopoly on sugar trade and production, shoes, plastics and detergent manufacture, a downtown industrial park and recent infrastructural developments on the quayside in Port-au-Prince and Gonaïves.

Both are engaged in leasing agreements with the US army. Many have pointed out the irony of such co-operation, whereby the US stations its forces and supplies in Mevs and Brandt facilities. The families were understood to have been among the financiers of the 1991 coup which ousted Aristide and have since been powerful lobbyists in Washington to prevent his return.

However, US commanders have clearly recognised that they would ostracise such powerful interests at their peril. The Mevs' Terminal Varreux development, a port facility and 43m-gallon petrol storage station, has become the third most important strategic position for the US army in a country where the embargo has forced petrol prices up to

nearly \$20 per gallon.

If it is not surprising that the US should do deals with powerful interests, it is in character for the leading families to link with the ascendant authority in Haiti. The Brandts and the Mevs built their businesses into empires during the three decades of Duvalier rule and have survived the seven years of turmoil since with delicate and monied diplomacy.

Mr Claude Deschamps, who employs 200 people in his schoolbook and paper production facility and is related by marriage to the Brandts, believes an active role and a low profile are the ingredients for commercial longevity in Haiti's polity. "The business sector prefers to work in the shadows, in a place where politics is unstable, if you put your face up front you're going to get punched in the face," he says.

The ability to put a positive gloss on all political developments is matched only by adaptability in business. The Mevs empire moved from import substitution in the 1970s into export production, and then, when the embargo cut off their raw materials, they turned their capital to infrastructural development.

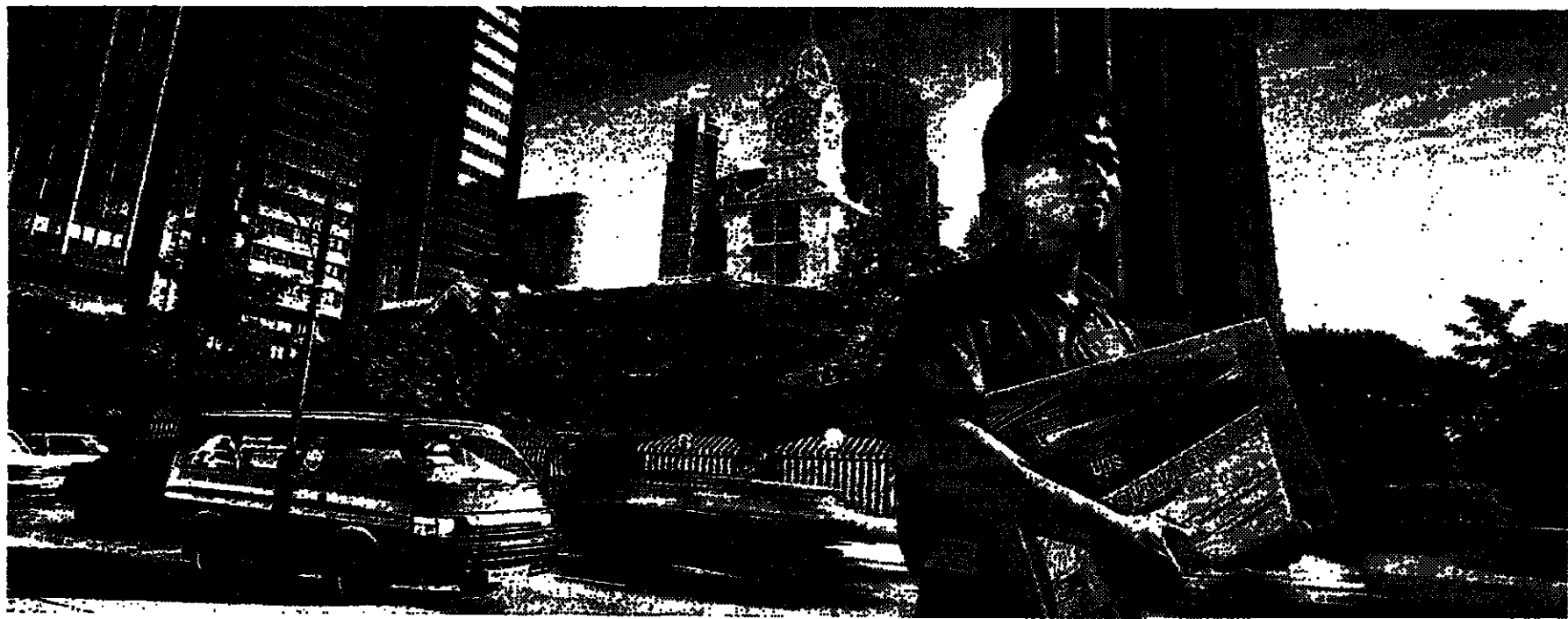
The kilometre stretch from the docks to the Cité Soleil shanty is now a shipping terminal, shiny and empty, but sitting pretty as the US lifted unilateral sanctions against Haiti yesterday and the embargo is expected to follow.

Mr Mevs is very optimistic that, when that happens, not only he but all Haiti can expect substantial developments. He emphasises the preconditions for growth: proximity to the US market, preferential access under both the Caribbean Business Initiative and the EU Lomé agreements, cheap land and labour, and the hefty stake the US has taken in Haitian success.

To make the most of that, the institutions of the state, Mr Mevs argues, must be made compatible with a civil society.

A civil service of sinecures must be replaced with a functioning bureaucracy. The economy must be secured to allow for a democratisation of capital.

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## US warns Moscow on complacency

By Jurek Martin, US Editor, in Washington

Mr Lloyd Bentsen, US Treasury secretary, yesterday urged Russia to quicken economic reform while simultaneously taking additional steps to control inflation.

Speaking in advance of today's summit between President Bill Clinton and Boris Yeltsin, he said: "Russia's progress has been better than most people expected, but the danger now is that complacency could lead to a severe setback."

Specifically, Mr Bentsen said that adoption of a tougher fiscal budget could release \$8bn to \$10bn (\$2bn to \$3.3bn) in western assistance already promised at the G7 summit. Picking the route on the foreign exchange markets "would bolster market confidence by delivering an effective \$8bn currency stabilisation fund".

"Let me be clear," he went on, "our support policy has been successful because our lending is conditional. For Russia to get all this money I've mentioned, it needs a bold economic reform programme."

Mr Bentsen was complimentary about Russia's political and economic achievements. He noted that inflation was down to about 5 per cent a month from more than 20 per cent a month last year; that real interest rates were now positive, real incomes rising, not declining; and that 50 per cent of gross domestic product was now in privatised hands.

But Russia, he went on, "must finish the privatisation job and not get stuck halfway". More companies needed to be sold and more land released from state control.

"In the long run our relationship must be based on trade and investment, not aid," Mr Bentsen maintained. US assistance approved by Congress is due to fall next year to \$850m from the \$2.5bn of 1993-94.

The Clinton administration is broadly satisfied with the present state of relations with Russia, although nervous about political developments over which US influence is marginal at best.

Rifts with Moscow over the former Yugoslavia have been carefully avoided so far, through strong Russian involvement in the Bosnian "contact group". The US worked hard to help resolve the difficult issue of the status of Russian military and civilians still in the Balkans, and has tacitly acknowledged Russian hegemony over some former Soviet satellite states, such as Georgia.

At the same time, Nato's "partnership for peace" programme has seen the first joint exercises between Russian and western forces. Last week President Clinton ruled out further Russian involvement in the US nuclear arsenal until cuts already agreed with Russia had been implemented, but the US is likely to remain open to further Russian initiatives.

But, as Mr Bentsen's speech was designed to make clear, the greatest positive contribution the US believes can be made to Russian domestic stability is greater integration with western economies.

"The present situation in Russia worries me," he said, "and I can't tell you how this will turn out. But I do know that to avoid slipping backward, Russia must take a bold step forward."

## Guatemala trade hopes threatened by labour claims

By Nancy Dunne in Washington

Mr George Brown, the chairman of the Congressional working group on international labour rights, is opposing a Clinton administration proposal to ease pressure on Guatemala over its abuse of workers' rights.

Guatemala is a beneficiary of the Generalised System of Preferences, which provides duty-free entry of developing country products to the US market. US law requires that GSP benefits are not extended to countries which show no progress in improving their workers' rights. Guatemala recently reformed some labour practices, prompting Mr Mickey Kantor, US Trade Representative, to consider relaxing the US stance on the country.

He is due to make a decision by Friday.

However, the Organisation of American States last week heard testimony from three Guatemalan workers, who claimed that violence against trade unionists had increased

in recent months.

In one alleged incident, workers occupied a plantation to draw attention to the firing of 62 workers who had been demanding the legal minimum wage of \$2 (\$1.25) a day.

They were forcibly evicted by an anti-riot squad, according to the three, who testified in Washington. Three workers were killed, 11 were wounded, and 19 have disappeared. Mr Diego Orozco, who led the protest, died; witnesses claimed he had been hurled from a helicopter.

Labour rights activists say Guatemala has failed some of its reform promises. "Not a single case of violence against trade unionists has been prosecuted since... August 1991, let alone resulted in a conviction or imprisonment," Congressman Brown said in a letter to be sent to Mr Kantor.

Mr Kantor's decision may be delayed because the GSP programme is due to lapse the same day the decision is due. Its renewal is attached to legislation implementing the Uruguay Round.

## Mexican economic pact boosts peso

By Damian Fraser in Mexico City

The Mexican peso strengthened yesterday and secondary market interest rates fell on the first day of trading after renewal of the annual economic pact between the government, business and unions.

The government resisted pressure in the pact to boost short-term economic growth, deciding to leave exchange rate policy unchanged and to run a balanced budget next year. The pact committed the incoming government of Mr Ernesto Zedillo to an inflation rate target of 4 per cent next year, from the current rate of just under 7 per cent.

The decision to push for a lower inflation rate at the expense of higher short-term economic growth was seen as positive news for the peso and for fixed-income instruments.

"The announcement will be sufficient to restore calm to the foreign exchange and money markets, after the speculation last week," said Mr Lawrence Goodman, vice-president at Salomon Brothers. "This was an aggressive move

to instil confidence in the market." The peso, after strengthening on Friday as rumours of a renewed pact reached the market, climbed further yesterday to 3.37 to the dollar.

Under the unchanged exchange rate policy, the peso is permitted to trade within a band whose floor, currently at 3.43 pesos to the US dollar, depreciates by 40 centavos a day, or 5 per cent a year. The central bank lowered the intervention limit for the ceiling of the peso from 3.25 to 3.104 pesos to the dollar, giving a further lift to the peso.

The announcement of the pact was earlier than expected, and may have been influenced by the maturing of \$1.8bn (\$1.19bn) of dollar-denominated bonds this week, which limits appreciation of the currency, says Mr Goodman.

The agreement appeared to benefit industry more than workers, with tax breaks aimed at stimulating investment rather than consumption.

Under the accord the government promised that spending on public investment would rise by 25 per cent next year.

## Cubans urged not to forget their sugar

Havana recognises food market reforms are not enough to rescue economy, writes Pascal Fletcher

In a recent broadcast, Cuban state radio chastised some of the country's sugar workers for spending more time growing food than weeding cane fields. More food is what the government would like - and has announced reforms to encourage - but not at the expense of sugar production.

Even if its farm reforms, modelled on those that proved so successful in China and Vietnam, do produce results, boosting sugar production will prove more difficult. But Cuban officials say it is imperative to help haul the country out of its four-year-old recession that has seen the economy's buying power (its capacity to import using available export revenues) contract from US\$8bn in 1989 to \$1.7bn in 1993.

"Cuba is a sugar economy... Economic recovery must come through recovery in the sugar harvests," Mr Octavio Castilla, deputy minister for foreign investment and economic co-operation, said.

From this Saturday, Cuba's farmers will gradually start legally selling produce directly to the public. Under reforms detailed last week, state farms and individual growers, excluding sugar co-operatives, will be allowed freely to set their

own prices to sell surplus fruit and vegetables after they have fulfilled government supply quotas.

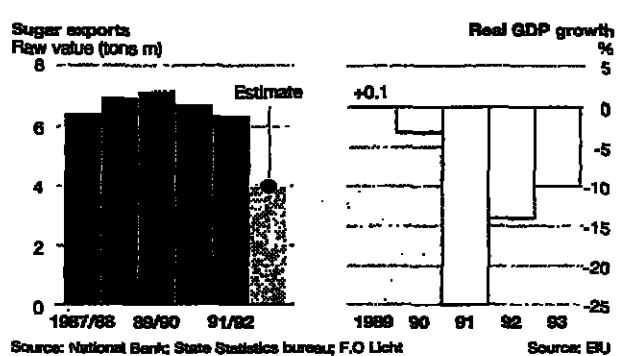
The reforms, part of an ongoing cautious process of economic liberalisation, are aimed at easing chronic food shortages and combating the flourishing black market. To some extent they amount to the legalisation of an already widespread sale of black market produce by Cuban farmers which has resulted in inflationary black market prices.

"I am sure that with this legislation we can stimulate food production through the law of supply and demand," Cuban defence minister Raúl Castro, brother of President Fidel Castro, said.

The strategic sugar sector appears headed for another difficult season. It was one of the areas hardest hit by the unravelling of the comfortable cocoon of preferential trade and aid ties Cuba had enjoyed with the now defunct Soviet bloc. The impact of this economic shock has been compounded by a US trade and financial embargo that remains firmly in place.

The 1992-93 sugar harvest, hit by bad weather and shortages of fuel, fertilisers and spares, was only 4.2m tonnes, a

### Cuba: a need to weed the cane fields



Source: National Bank, State Statistics Bureau, F.O. Licht

Source: EU

40 per cent drop from the previous season. The 1993-94 crop fell lower still. Cuba put it at just above 4m tonnes. Some international traders said it was even lower.

Sugar is not just the island's biggest export earner, accounting for about 40 per cent of total external revenue in 1993. It is also a key commodity to trade for vital oil imports and is closely inter-linked with other sectors such as farming, export rum production and energy generation.

As Cuba prepares for the start of the next harvest in November, alarm bells are sounding about sloppy preparations. In unusually frank

reports, the state media have criticised poor repairs and maintenance at sugar mills, delays to new cane plantings and the failure of sugar workers to weed growing cane fields.

"One of the most critical points at this time is the sugar harvest," Mr Castilla said. He said urgent reforms were needed to de-centralise, re-organise and revitalise the sugar sector.

Incentives for sugar workers either in the form of bonuses or improved access to necessary consumer goods in exchange for higher productivity, similar to those already introduced in the tourism sec-

tor, are being discussed.

If this season's harvest is as bad, or worse, than the last, gross earnings from tourism could overtake sugar as the island's leading hard currency earner. The tourism industry, one of the first to be opened to foreign investment, had become more profitable and cost effective as the number of foreign visitors increased.

Figures published by Cuba's Centre for Studies on the Cuban Economy show that tourism grossed \$650m in 1993 - net earnings are substantially less because of the imports needed to service the tourist industry - compared with \$720m earned by sugar exports.

Besides tourism, foreign investors, especially Mexicans, are putting money into textiles, cement, steel and glass manufacturing, cosmetics production and citrus farming. Canadians are leading the field in the oil exploration and mining sectors.

One additional external squeeze will come from the US government's decision on August 20 to restrict dollar remittances sent to relatives in Cuba by Cuban-Americans living in the US. Mr José Luis Rodríguez, the finance minister, said this would hurt, but

described as "exaggerated" US reports that the remittances represented \$500m of income for Cuba each year.

Over the last 18 months, the government has lifted a ban on Cubans using hard currency, legalised limited private initiative in some trades and crafts and moved to balance the country's lopsided internal finances through cutting subsidies, starting a tax system and raising prices of utilities and consumer goods such as alcohol and cigarettes.

"We're moving, we're not standing about with our arms crossed. There is a process of reform in progress," Osvaldo Martínez, president of the Cuban parliament's Economy Commission, said.

But it is clear the reform process will be cautious and controlled and limited by the government's expressed intention to preserve its one-party socialist system. "We can't let the process run away from us," Mr Martínez said.

The government's dilemma is that it must move quickly enough to respond to popular pressure in demands for improved economic conditions while not letting the momentum of economic reform wrest centralised control of the economy completely from its hands.

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# ING BANK

## NEWS: WORLD TRADE

# US auto industry seeks Asian boost

By Victor Mallet in Bangkok

US motor manufacturers and parts suppliers yesterday embarked on a campaign to increase their business in South-East Asia, where the vehicle market is dominated by Japanese corporations.

The 11-company US mission to Thailand, Indonesia and Malaysia - sponsored by the big three US carmakers Chrysler, Ford and General Motors and supported by the US administration - comes at a time when US automotive companies are attempting to increase their presence in the region after years of neglect.

"We're looking at how we can become members of the supplier community," said Mr Christopher Bates of the Motor and Equipment Manufacturers' Association. "In order to position ourselves for the growth that's going to occur over the next decade." Critics say they are arriving 20 years too late and have allowed Japanese corporations to dictate policy to South-East Asian governments on everything from industry standards to import tariffs.

In Thailand, for example, Japanese manufacturers sup-

ply more than 90 per cent of the local vehicle market, with European luxury carmakers making up most of the balance. "We plan for the next quarter-century," admitted one executive for a US car com-

**'We plan for the next quarter-century. The Japanese make plans for the next quarter-century'**

pany. But some US businessmen are bullish about their chances in Asia. They point out that South-East Asian markets are only now becoming big enough to enjoy important economies of scale.

They also say some Japanese manufacturing operations in Asia and their local parts suppliers are profitable only because of high tariffs which may be reduced as Asian countries liberalise their trade regimes; just as the Japanese successfully seized a big share of the US market after 1970, US executives say, so it should be possible for US manufacturers

to break Japanese dominance in Asia today.

US car component makers, furthermore, see opportunities for supplying parts to Japanese assemblers in Asia as they do in the US.

In the past two years, Chrysler has begun operations in Indonesia, Malaysia and Thailand to assemble the Jeep Cherokee and has tussled with its Japanese rivals to ensure that its products are not discriminated against in national tariff systems.

General Motors has re-entered the Indonesian market. Ford, which closed its assembly operation in Thailand in 1976, is conducting a feasibility study on whether to produce pick-ups in Thailand with Mazda.

Thailand is the second largest market in the world for pick-up trucks after the US.

This week's trade mission is supported by a US Commerce Department export promotion programme announced by Mr Ron Brown, commerce secretary, in June.

The six-nation Association of South-East Asian Nations accounted for \$28bn of US exports in 1993.

By Nancy Dunne in Washington

When Russian President Boris Yeltsin arrives in Washington today, he will see Mrs Ruth Harkin, president of the Overseas Private Investment Corporation (Opic), almost everywhere he goes. They will meet at the White House today for lunch with President Bill Clinton and leading businessmen; at the Russian embassy dinner tomorrow night; and Mrs Harkin will accompany Mr Yeltsin to Seattle on Thursday.

Mrs Harkin's high profile role owes much to timing. The US no longer has the dollars needed by new democracies to satisfy the demands of their liberated electorates. But it does have credit and a flourishing private sector. With its loans, guarantees and political risk insurance, Opic can be the key to packaging financing for private sector development.

"We have been able to take this agency and make it the premier foreign assistance agency," said Mr Chris Finn, Opic's executive vice-president. Congress has been impressed that Opic stretches a dollar as few bureaucracies have done before. It has raised Opic's comparatively small



Ruth Harkin, head of Overseas Private Investment Corporation

budget allotment from \$50m in 1994 to \$105m in 1995 for project finance funding. Most of that is to go to the newly independent republics of the former Soviet Union. Using its guarantees and insurance, Opic attracts private investors and bond holders to risky but promising projects. It can take \$40m in loan guarantees and leverage this into \$1bn in investment. In less risky regions, it takes only \$25m to raise \$1bn in backing. Opic's guarantees make only project

finance available. This means investors get the project as collateral and are repaid from the profits.

The White House is equally pleased with Opic as the leading agency on foreign policy initiatives. It is financing laundries and dry cleaners in South Africa, supermarkets in the Russian Far East, and hotels in Georgia and on the West Bank. Next month it will lead an investment mission to Hungary to assist in the modernisation of its energy sector.

During this week alone, it is committing \$1bn in financing and political risk insurance for eight projects worth \$2.3bn. These include:

- A consortium of western investors led by Texaco, backed by \$400m in Opic financing, to explore and develop the Timan-Pechora Basin of Arctic Russia.
- \$250m in insurance and guarantees for an engine design project with US, German and Russian partners.
- A \$60m loan guarantee for a project to improve phone services in 40 former Soviet cities and expand the number of international lines to Moscow.

Mrs Harkin wants to help develop Russia's pharmaceutical and agribusiness sectors, where she sees "enormous changes underway" in the food chain.

She plans investment in flour mills, grain storage facilities, seafood canning and freezing facilities. The impact of Opic's political risk insurance - covering political violence, currency convertibility and expropriation - is rarely noted. With about \$100,000 in Opic insurance, a US munitions company, Alliant Tech Systems, has embarked on a joint venture in Belarus, melting down old Soviet munitions and selling it for scrap steel. A second

project will be launched in the Ukraine.

Around the world, Opic has 10 investment funds operating or in the process of being launched.

These include two African funds; three in the former Soviet Union; others in Poland, Israel and the Asia Pacific region; one for environmental projects; and another for sustainable development.

Under Mrs Harkin, whose husband Senator Tom Harkin is a liberal from Iowa, Opic has also supported Democratic political goals. It does not extend loans to countries which infringe workers' rights, or for projects which are harmful to the environment. It also precludes deals which might cost American workers their jobs. With countries around the world privatising and searching out investment, it can afford to be choosy.

In Russia, Opic is looking for projects which capture the imagination of the Russian people.

"We have a clear realization that this little agency is not going to change Russia or any other country, but many of the projects we are involved in we hope will serve as a catalyst to the private sector in general," Mrs Harkin said.

## Political storm in a Taiwan port

Tensions with Beijing stand in way of Asian transport hub plan, writes Laura Tyson

Taiwan has anointed the southern port of Kaohsiung as the centrepiece of a plan to make the island an Asian transport hub. But its ban on direct trade with China stands in the way of such regional ambitions.

Dubbed ROC (regional operations centre), the strategy was conceived by government planners several years ago as one that would position Taiwan for a new stage of industrial development.

The hope is to attract multinational companies to establish regional headquarters in Taiwan as a base from which to penetrate China and South-East Asian markets, especially after Hong Kong reverts to Chinese sovereignty in 1997.

Kaohsiung was chosen for its harbour facilities and central location in East Asia, says Mr Shive Chi, vice chairman of the Council for Economic Planning and Development, the government's top planning agency.

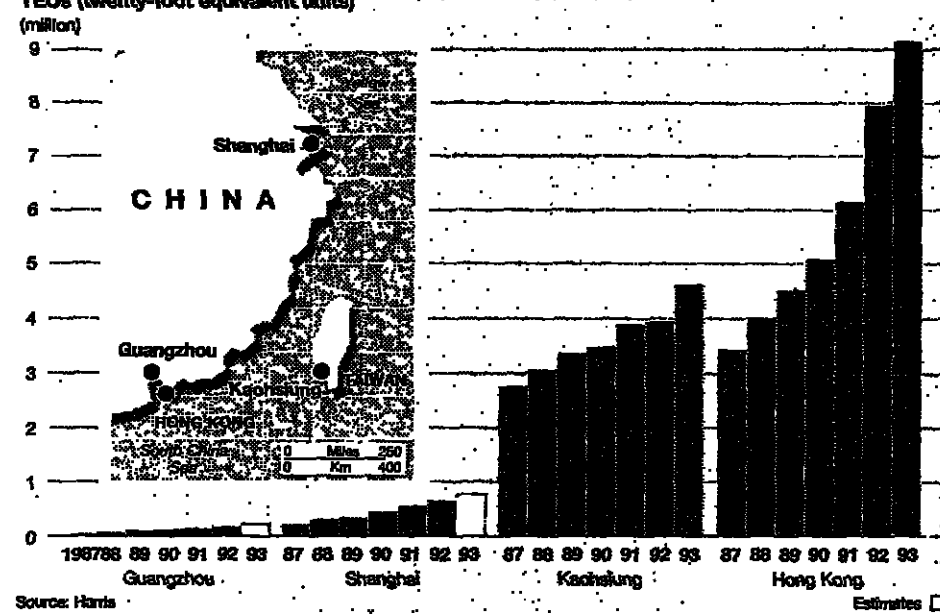
A government-commissioned study prepared by McKinsey & Company, the US management consultancy, on the development of Taiwan into a regional centre for business, finance and transportation is to be released soon.

An earlier study on port development by consultancy Frederick R. Harris, Taiwan, concluded that from the perspective of shipping companies, using Kaohsiung as a hub port for "greater China" trade made better economic and logistical sense than using Hong Kong - provided direct cross-strait sea links were re-established.

The groundwork for such links has been done, according to Mr Hsieh Chang-cheng, the acting director of the Kaohsiung Harbour Bureau. But there are still political tensions

### The China factor: port containerised traffic

TEUs (twenty-foot equivalent units) (million)



Source: Harris

between Beijing and Taipei. "Technically speaking, there is no problem whatsoever," Mr Hsieh says. "If the government changes its policy tomorrow, we are ready."

Taiwan's ruling Nationalist party broke off links with mainland China when it fled to the island in 1949 after losing the civil war with Mao Zedong's communist forces.

Dr John Rieckels, senior vice president at Frederick R. Harris, estimates that 15 per cent of Hong Kong's cargo volume, mainly trans-shipment, would shift to Kaohsiung were direct links resumed. "The real market growth in this region is China, and the port of Kaohsiung has been locked out of serving that market for purely political reasons," he says.

Kaohsiung was the world's

third-largest container port in 1993 with a total volume of 4.4m TEUs (twenty-foot equivalent units), half that of first-ranked Hong Kong with 9.2m TEUs. Singapore, second in the world at 9.05m TEUs last year, does not directly compete with Kaohsiung as it serves the South-East Asian market.

"Hong Kong is now being used by international shipping companies as the gateway to the China market," says Mr Peter Hsu, a manager in the Kaohsiung offices of Sea-Land Service. With Hong Kong harbour operating at 10 to 20 per cent above capacity, space is at a premium. Sea-Land bases its large ships in Kaohsiung and uses feeder lines to service mainland ports via Hong Kong. "With direct cross-strait trade, we could just

skip Hong Kong," Mr Hsu says.

At least 75 per cent of Taiwan's rapidly rising exports to China are routed through the British colony, with a small portion going via other ports such as Singapore and Korea. Taiwanese businessmen are lobbying for direct trade as it would reduce travel time and shipping costs.

Mr Chang Chun-hsing, a legislator and the opposition Democratic Progressive party's candidate for Kaohsiung mayor in year-end elections, is less sanguine than ruling party officials about Kaohsiung's prospects.

"Kaohsiung is just not competitive with Hong Kong and Singapore," he says. "In the past, the harbour made a lot of money from Taiwan's exports and cheap labour, but we can-

not rely on those any longer. The port has not sufficiently improved its efficiency, facilities and services."

However, the main problem lies not in the port itself but in government policy. "If you don't have direct links with China, how can you become a regional operations and transportation centre?" says Mr Chang.

Government officials brush off the thorny issue of direct transport links to China's vast potential market. "Already, 39 per cent of the container traffic at Kaohsiung harbour is trans-shipment," says Mr J.T. Chen, a senior analyst at a think-tank under the ministry of transportation and communications.

"If we can create favourable conditions to attract shipping companies to Kaohsiung, then we can become more competitive. If the government can provide a commercial park and if the management of the port can be improved, then we should have no problem becoming a regional hub," says Mr Chen.

Plans to expand port facilities and streamline its administration are being drawn up, say harbour bureau officials. A fifth container terminal is scheduled to be completed in 1998 and there are plans for either a sixth container terminal or back harbour terminal on land bordering the harbour.

Customs clearance and processing will be expedited by a new computerised system that is being installed, and which will reduce docking charges, officials say. Authorities will also tackle labour issues, the problem foreign shipping companies most often complain about. Ways to improve the port's management structure and partially privatise harbour facilities are under study.

## Pakistan's energy sector attracts \$4bn

By Farhan Bokhari in Islamabad

Pakistan's efforts to attract investments in power generation and in oil and gas exploration have borne fruit in the form of contracts worth \$4bn. Ms Benazir Bhutto, the prime minister, described the contracts as "a landmark in the history of private sector investment" in Pakistan.

The bulk of the new contracts involve power generation projects backed by US businesses, including AES Corporation, Enron, GE Capital and Tenaska. Occidental and Union Texas are involved in oil exploration contracts worth \$276m and many officials hope that new oil finds will help the country's power generation efforts by providing lower cost fuel.

Domestic businesses have suffered production losses due to disrupted power supplies. The rains that followed a long dry spell restored the country's hydro-generation capacity and narrowed the gap between demand and supply. However, the relief may be only temporary.

Many transmission lines are in a state of disrepair and the government estimates that up to 33 per cent of the power generated in Karachi, Pakistan's largest city, is lost in breakdowns, leakages and power thefts. In the rest of the country, up to 23 per cent of generated power is lost in similar ways.

An energy policy announced

this summer has set the tone for fresh investments. The government has eliminated much red tape by replacing a series of official procedures with a one window set-up in Islamabad. Moreover, investors have been assured of a bulk tariff rate of 6.5 cents per kilowatt-hour, considered to be one of the more attractive rates among developing countries.

The government's private power board estimates that up to \$5bn worth of investments could come in power generation, in addition to the American commitments, during the next three years.

However, for some investors, the signing of the deals may just be the beginning of a difficult process involving financing. The financial package requires them to put up a 20-30 per cent equity, while raising the rest in loans or other financing. Senior Pakistani officials concede privately that some of the sponsors may not be able to put together their financial packages, especially as international demands for financing remain high.

Concerns have also been raised over the delay on Pakistan's plans to float its first sovereign Eurobond offer worth \$200m. It was originally scheduled to take place this month but was postponed due to recent turbulence on international bond markets.

Pakistani officials hope that the US commitments have opened the most important window to attract fresh investments, and that other foreign investors may follow.

## Plan to import Qatar gas approved

The Economic Co-ordination Committee of the Pakistani cabinet has approved a plan to import natural gas from Qatar, Renter reports from Islamabad.

A government statement issued yesterday said the scheme provides for a \$3.2bn gas pipeline from Qatar to Pakistan.

Pakistani president Farooq Leghari said earlier this month after a visit to Iran that Tehran had agreed to join the project. The first phase would comprise a 1,600km pipeline and transmission facilities from a southern gas field in Qatar to Pakistan.

The pipeline is planned to carry 1.5bn cubic feet of gas per day and later to be extended to India. The gas pipeline project is being sponsored by Sharjah-based Crescent Petroleum International, Canada's TransCanada PipeLines, the leading gas transmission company, and Brown and Root, the US engineering group.

The pipeline will carry gas offshore from Qatar across the lower Gulf to the United Arab Emirates' west coast and overland across northern UAE to the Gulf of Oman.

From there the pipeline will run along the coast of Iran to Pakistan, terminating near Karachi.

The project will be financed by regional governments and the World Bank. Earlier this month Iran and Pakistan agreed to build an oil refinery in Pakistan and to export Iranian natural gas and refined oil products to Pakistan.

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## WORLD TRADE NEWS DIGEST

## Taiwanese chip plant prepares expansion

Texas Instruments-Acer, a Taiwan-based semiconductor manufacturer, has announced a \$400m expansion project to produce advanced computer memory chips, writes Laura Tyson in Taipei.

The company has signed a \$210m syndicated loan with 15 foreign and two domestic banks. The new plant will make 16-megabit dynamic random access memory chips on eight-inch wafers. Taiwan's only DRAM producer, TI-Acer currently produces 4-megabit chips on six-inch wafers. Chips will be made using 0.5 and 0.35-micron process technology. Acer holds a 53 per cent stake in TI-Acer, Texas Instruments has a 26 per cent share and China Development Corporation, controlled by Taiwan's ruling Kuomintang, owns 16 per cent.

## John Brown wins \$79m deals

John Brown Engineering, part of the UK's Trafalgar House group, has won three turnkey contracts worth a total of more than \$79m for large gas turbine-based generating plants in Malta, Australia and the UK, writes Andrew Baxter. In Malta, Enemalta awarded it a contract to extend the Delimara power station, while in Australia it will build a plant for Pilbara Energy, supplying power for mining operations in Western Australia. Hydro-Electricity also awarded it the contract for a combined heat and power plant at Runcorn, Cheshire.

**CONTRACTS**  
■ Pan-United Shipyard, a unit of Singapore's Pan-United Corp, has signed two shipbuilding contracts worth \$87m (US\$44.6m) with Kedah Cement Holdings, one of the largest cement manufacturers in Malaysia. Pan-United will build two specialised cement carriers for progressive delivery in 1998.

■ United Technologies Automotive, a unit of United Technologies, has formed a joint venture with Dongfeng-Citroën Automobile and Société Générale to produce automotive electrical distribution systems in China.

■ Six liner operators have signed an agreement to charter and exchange slots, co-ordinate sailings and co-operate in the use of terminals in the northern European Far East trades from 1996. The agreement was signed by American President Lines, Mitsui Lines, Orient Overseas Container Lines, Nedlloyd Lines, CGM Orient and Malaysian International Shipping.



## BT rival unveils its prices

By Andrew Adonis

Energis, the new UK long-distance telecommunications operator, unveiled its prices yesterday, promising strong competition with the country's existing telecommunications groups, British Telecommunications and Mercury.

However, Energis claims that its tariffs were up to 44 per cent cheaper than BT's standard rates met an angry rebuttal from BT, which said that some of Energis's published figures exaggerated BT's tariffs by a third.

For daytime calls, the price differential between Energis and BT standard tariffs is between about 11 per cent and 17 per cent. It is also significantly cheaper than Mercury

for many business calls.

Volume discounts can make straight comparisons misleading, but taking account of its own volume discounts Energis remains strongly competitive with both BT and Mercury, particularly for high-volume telecoms users.

Energis has no local network, and is competing with BT only for long-distance and international traffic.

A subsidiary of the National Grid, the transmission system for the power industry in England and Wales, Energis has used the Grid's pylons to carry its 3,500km fibre-optic network. It claimed that its overheads are far lower than those of its rivals in terms of initial investment and operating overheads.

Energis has invested £250m (£395m) in its long-distance network, against Mercury's £2.7bn. It has about 340 employees, compared with Mercury's 10,500.

Mr David Day, Energis's chief executive, said that unlike BT and Mercury, Energis would contract out all functions except strategic management and customer service, significantly reducing its cost base.

Energis identified small and medium-sized businesses as its main target, the segment of the corporate sector which has gained least from Mercury over the last decade. However, Mercury said it was now targeting the same group, and claimed that any price advantage held by Energis would be offset by

superior marketing and customer service.

Energis is the UK's third long-distance telecoms operator. BT also faces extra competition from cable operators at the local level, and from other operators targeting specific sections of the business market, particularly in the City of London.

Energis has signed a preferred supplier agreement with Colt, a City operator. It will also sell long-distance capacity to cable operators.

Mr Laurence Hoyworth, telecoms analyst at Robert Fleming, said the launch of Energis was likely to accelerate the reduction of long-distance phone tariffs, bringing them more closely in line with local call prices.

## Closure of Swan Hunter seems certain

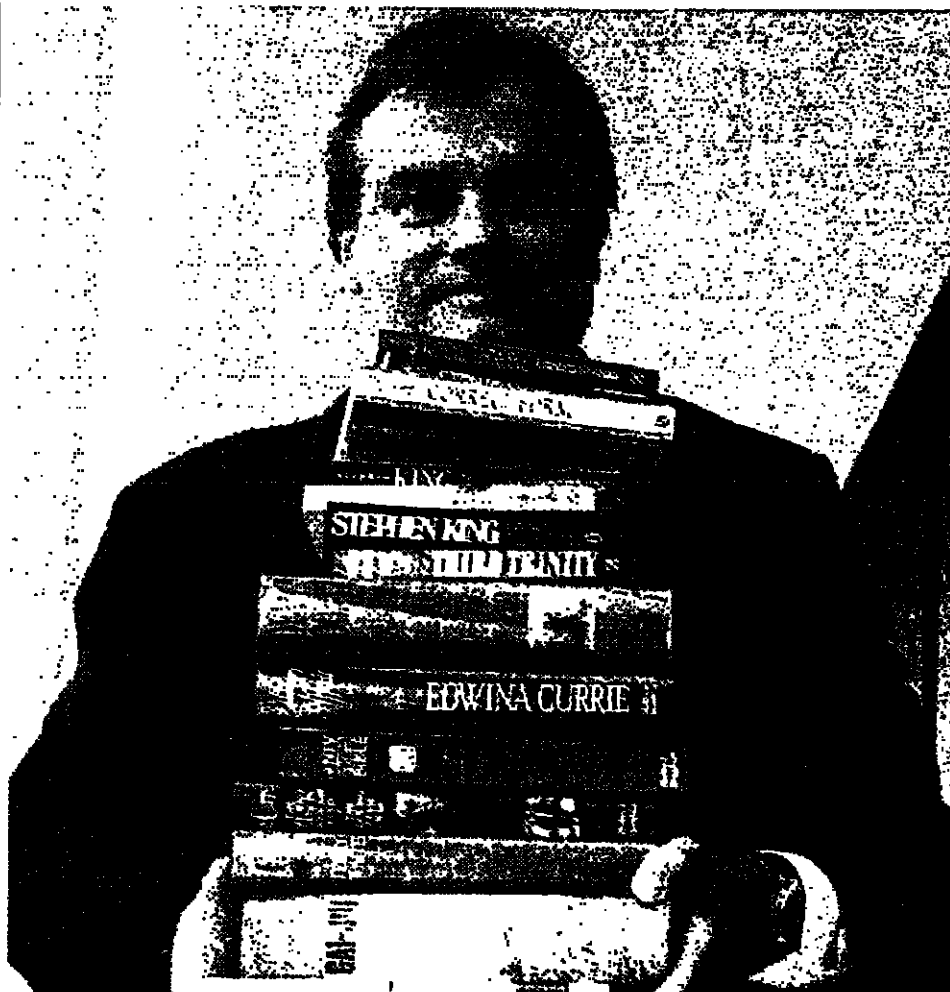
Closure of Swan Hunter, the Tyneside shipyard in liquidation, yesterday became a virtual certainty when the bulk of the design team, crucial to the continuation of the business, were told they would be made redundant on Friday.

Receivers Price Waterhouse yesterday told the unions a further 177 would be made redundant on Friday, of whom 79 were technical employees, most of them from the 103-strong design team. Loss of the team would make it impossible for Swan Hunter to tender for more work, in effect ensuring its demise by ending prospects of its sale as a going concern.

This week's redundancies will leave just 450 workers at the yard, which has been in receivership for 18 months. More jobs are likely to go in mid-October and most of the rest at the start of November when the yard's last frigate, HMS Richmond, is handed over to the Royal Navy.

Only about 100 will remain for maintenance and security - the last survivors of the 2,500 on the payroll last May.

The unions insisted that they still did not regard closure as inevitable - there could be a move for the yard after everyone has been made redundant.



Hodder Headline, the UK's fifth largest publisher, is quitting the UK's Net Book Agreement, which sets prices for books. Chief executive Tim Hely Hutchison (above) estimates that books costing £15-£20 will drop to £11-£12. The agreement is being reviewed by the UK's Office of Fair Trading.

## MTV chooses London as non-US base

By Raymond Snoddy

MTV Networks, the American-owned music television group, has decided to make London its international headquarters responsible for all MTV activities outside the US.

In a substantial restructuring, Mr Bill Roedy, chief executive of MTV Europe, will become president of MTV Networks International and be in

charge of everything from MTV Latino, the Latin American service, to the launch of two new channels in Asia by the end of the year.

Mr Roedy will continue to be based at the headquarters of MTV Europe in the old north London studios of TV-am, the UK breakfast television channel that lost its franchise. He will also have a new office in New York.

London has been given

increased importance as an MTV centre because MTV Europe, with music, news and features adapted for the European market, is becoming bigger than the US operation.

For the past two years, MTV Europe, launched in 1987, has been profitable, although the company declines to give profit figures. MTV Europe is available in more than 60m homes in 37 countries compared with 59m for the US version, and in

the past year has extended its reach into Greece, the former Soviet Union, Lebanon and Turkey.

MTV, which is owned by Viacom, claims it is the largest television network in the world. It reaches 250m homes in 83 countries.

This Friday, MTV Networks launches a UK satellite channel, VH1 UK, which will be a music channel aimed at people aged 25-49.

## Ulster Tories seek to rock conference boat

By David Owen

Conservatives from Northern Ireland are moving to rock the boat before next month's Tory conference by urging the party "actively to persuade" the people of the province that their best future lies within the UK.

They are trying to force a vote on this by canvassing support among Tory constituency organisations.

Their amendment to the motion on Northern Ireland that will be debated at the conference also calls for the deletion of a reference to the courage of Mr Albert Reynolds, the Irish prime minister. A letter to constituency chairmen from Mr Leonard Fee, the senior unpaid Tory in the province, argues that it would be "dis-

tasteful to ask the party conference to praise Mr Reynolds".

The move emerged yesterday as Downing Street renewed its demands for an unambiguous assurance that the IRA has ended violence for good.

The government's remarks came after Mr Gerry Adams, Sinn Féin president, on a 14-day visit to the US, said he wanted "a permanent peace" in the province. "I am not interested in any temporary suspension," Mr Adams said.

Mr Michael Mates, the former Northern Ireland minister, sent by the government to shadow Mr Adams's US tour, said the remarks "take us a little further. I happen to believe that the intention is that the end should be permanent, but he cannot say it."

## Britain in brief



### Labour party to underline policy shift

Mr Tony Blair, leader of the opposition Labour party, will today ceremoniously ditch its traditional approach to economic management by insisting that the party's social ambitions can be met only in a dynamic and open market economy.

The shift will provide the backdrop for next week's annual party conference in Blackpool by underlining Mr Blair's commitment to accelerate the process of modernisation begun by his predecessors. It is likely to further anger left-wing activists who have been alarmed at the pace with which Mr Blair has challenged traditional policies since his election in July.

### Struggle forecast for life insurers

About 40 life companies, accounting for just under one-quarter of new business premium income in the UK industry, will be struggling to continue to sell life insurance within a decade, according to actuaries Bacon & Woodrow.

An analysis by B&W suggests that 40 per cent of the 103 UK life companies have expense ratios which would make them vulnerable if competition in the sector takes the form of a price war. Just 10 per cent are what B&W calls "cost competitive".

### Brent Walker 'fraud' helped its expansion

The rapid expansion of Brent Walker, the property and leisure group, throughout the 1980s was heavily dependent upon the fraudulent profit-boosting operation orchestrated by Mr George Walker, the company's former chairman and chief executive, the prosecution in his trial alleged yesterday.

The fraud took place at a critical phase of the company's development and had a substantial effect on how Brent Walker was regarded by investors. Mr Peter Rook QC told the Old Bailey, the central criminal court.

Mr Walker and Mr Wilfred Aquilina, a former Brent Walker finance director, both deny charges of theft, false accounting and conspiring to falsify the company's accounts.

### Arthur Andersen announces merger

Arthur Andersen, the UK's third largest accountancy firm by fee income, yesterday formally announced its long-awaited merger with parts of BINDER Hamlyn.

Arthur Andersen said seven of BINDER Hamlyn's offices would join Arthur Andersen Worldwide Organisation in a merger which would "break new ground in the accounting profession" but would continue to practice under the BINDER Hamlyn name.

### Cleanliness in Bath

Bath, in the south-west, and Ripon, in North Yorkshire, emerged yesterday as the UK's cleanest cities in the first national survey of its kind by the Tidy Britain Group.

The City of London came eighth and Manchester came bottom of the 57 cities surveyed.

### Dairy group fails to win judicial review

The Dairy Trade Federation, which represents UK milk processors, is considering further action after being refused leave by the High Court yesterday to seek a judicial review of the government's handling of the milk market deregulation.

Mr Justice Dyson ruled that the federation had an "arguable case" but had failed to bring its action promptly enough after government approval of the new arrangements in June.

The milk market in England and Wales is due to be liberalised on November 1, when the Milk Marketing Board will be replaced by Milk Marque, a voluntary farmers' co-operative.

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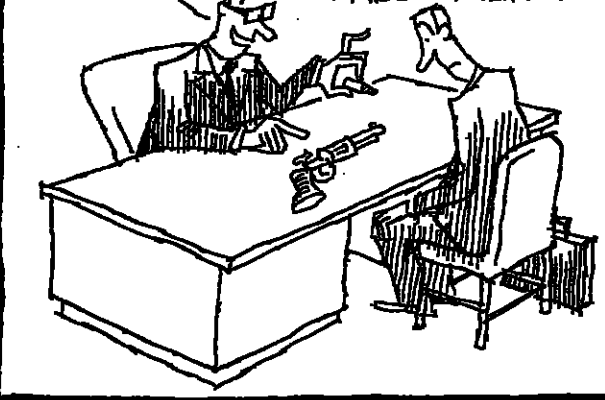


## BUSINESS AND THE LAW

# Liability to exposure

## Diana Bentley on closer legal scrutiny of derivatives losses

LET ME EXPLAIN DERIVATIVES TRADING SIMPLY: YOU PLACE ONE BULLET IN THE CHAMBER THEN...



Recent disclosures by several US public companies that they have suffered substantial losses through trading in derivatives has resulted in the announcement of tighter controls by US regulators. It has also led to the realisation that many of the legal issues which arise from the use of, or failure to use, derivatives have yet to be tested in the courts.

Why do public companies use derivatives - financial instruments, such as futures and options? The answer is to manage financial risks associated with their business. A company can reduce the risk of a rise in the future cost of borrowing by fixing its borrowing costs by the use of interest rate futures, options or swaps. Equally, multinational companies can hedge against foreign exchange exposure through foreign currency futures and options.

But derivatives are not without their risks, as recent large trading losses in derivatives in the US illustrate. In May, Air Products and Chemicals, the US industrial gases group, was the fourth listed US company to take a charge against its earnings this year as a result of losses on derivatives contracts bought from Bankers Trust, the New York bank.

The losses suffered by Air Products and the other three companies - Procter & Gamble, Mead Corporation, the US paper group, and Gibson Greetings, a greetings card manufacturer - have raised questions of liability.

On September 13, Gibson Greetings filed suit in the Ohio Federal District Court seeking damages of \$23m, the amount owing on the derivatives transactions, and punitive damages of \$50m in respect of transactions with Bankers Trust.

The action alleges fraud and deceit, claiming the bank "made false representations and failed to disclose to Gibson the risk of the extremely complicated derivative products" sold to Gibson. Bankers Trust denies the claim.

Depending on the success of the Gibson action, Procter & Gamble has said it may follow with an action over its loss this April of \$157m on two highly leveraged interest rate swaps.

Although the company has not yet started legal proceedings it attributes the loss to Bankers Trust, arguing that the transactions, based on complex formulae which multiplied the effect of interest rate increases, were not usual for

the company and were inconsistent with its policies.

The bank denies liability for these losses, saying the transactions were entered into after much discussion, that it formally recommended to Procter & Gamble that the company limit its risk by unwinding all or part of the transactions when changes in market rates began to affect its position adversely - advice Procter & Gamble rejected.

The Bankers Trust action highlights the question of the liability of banks in providing derivatives services and the level of advice given.

Losses arising from derivatives dealing are an emotive issue, according to Mr Tim Plews, of City solicitors Clifford Chance. "Derivatives are somewhat intangible and large sums can be lost or gained overnight, making losses particularly unpalatable," he says.

Mr Jonathan Melrose a partner of City lawyers Simmons & Simmons says the basic premise of UK derivatives regulation is full and frank disclosure, though financial institutions dealing with professional clients are permitted to place greater reliance on the client's own judgment.

But lawyers accept that even

compliance with standard disclosure requirements to professional clients may not avoid claims.

Given its sophistication, Procter & Gamble's assertion that it was relying on Bankers Trust's advice has been greeted with derision in the US markets. But the company has not ruled out litigation.

Gibson Greetings alleges it was positively misled. That shows a financial institution is never out of the firing line, Mr Melrose says. "Large losses can concentrate the mind on what action may be available. Clients may try to argue that they are owed a duty of care or, as with Gibson, allege they were actively misled," he adds.

With exotic derivatives questions of liability are more complex, Mr Plews says. "There can be a fine line between what it takes to market a product, especially a new one, which has to be demystified for a customer, and the giving of advice. To what extent is a bank encouraging reliance on its explanation before a customer commits to the contract?"

The possibility of shareholder action against companies using derivatives adds another dimension to the problem. Shareholders may be philosophical about trading losses in traditional areas of business, says Mr Plews, but less forgiving about derivative losses. There is certainly more pressure now on directors to ensure they understand the products the company is dealing in, says Mr Melrose.

The point is illustrated by a recent Australian decision in which the chief executive and chairman of AWA Ltd, a public company, was found to have been negligent in foreign exchange transaction losses because he failed to establish adequate internal control systems in the foreign exchange department and properly control the activities of the department head.

The decision by the Commercial Division of the New South Wales Supreme Court is under appeal, but Mr David Williamson, London partner of Australian law firm Blake Dawson Waldron says: "The Australian decision should focus the minds of directors and professional advisers, such as auditors, on their potential exposure in this area."

Directors may find themselves in a quandary over derivatives, according to Mr Melrose. "In any company where there is a sophisticated treasury operation inadequate use of derivatives to hedge may also be open to question."

He points to a US case where directors of the LaFontaine Grain Co-operative were found by the Indiana Court of Appeals to be negligent for not adequately using derivatives to minimise financial risk.

Directors may in some circumstances be covered by Directors & Officers Liability insurance, now common in the US and becoming so in the UK. Trading losses from failure of management may be covered by such insurance, but some policies exclude failure of investments, in which case losses incurred through derivatives may not be insured.

UK and US lawyers will watch the US litigation with interest. Apart from the Hammersmith and Fulham litigation, where the House of Lords ruled local authorities did not have the powers to enter into swaps contracts, little legal action has been taken on derivatives in the UK.

Yet, as the recent US action confirms, the use of derivatives is under increasing legal scrutiny.

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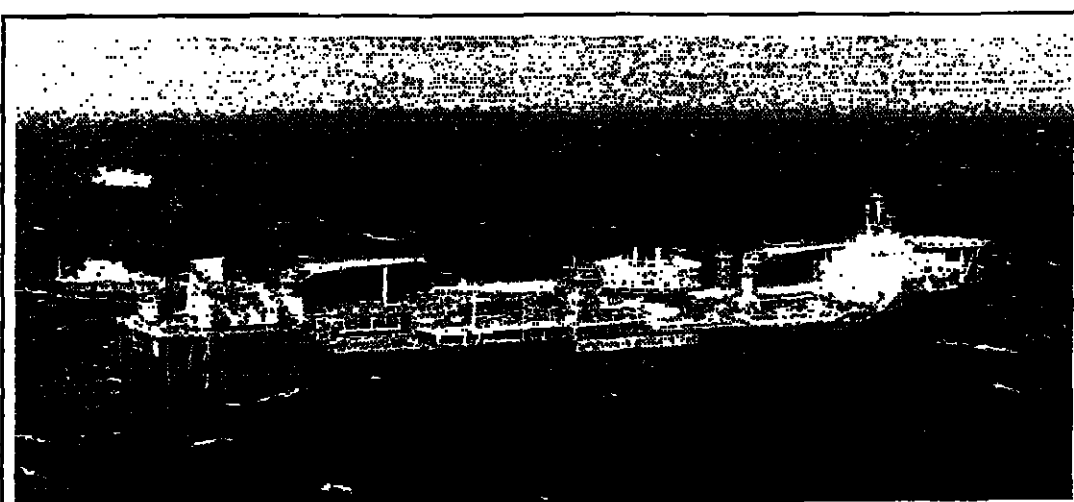
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## TECHNOLOGY



Floating sensation: the Gryphon can exploit remote offshore petroleum deposits too small to justify a conventional platform

## Ship-shape for the high seas

Robert Corzine explains why floating oil production systems may prove increasingly popular

Like its mythological namesake, the Gryphon, a tanker-like vessel anchored in the North Sea 200 miles northeast of Aberdeen in Scotland, is an unlikely combination.

From a distance it looks like any other large oil tanker. But whereas most such vessels measure their lives in millions of miles travelled, over the next 15 years or so the Gryphon is unlikely to move more than a few metres from its present position. Part ship, part crude oil and natural gas processing and storage plant, the Gryphon represents the latest thinking on how to exploit remote offshore petroleum deposits too small to justify building a large and expensive conventional platform fixed to the sea bed.

Roy Phillips, an executive with Kerr-McGee, the US company that operates the Gryphon, says the decision to use a floating production, storage and offloading system (FPSO) saved 40 per cent over the cost of a conventional platform.

In addition, the early availability of the ship, which had been built as a floating oil storage vessel on a speculative basis in Spain, meant the company was able to produce the first oil from the field in October last year, about a year after the go-ahead was given. First oil production from a conventional platform

would not have been possible until early 1996, he says. Although the Gryphon is the only FPSO operating in the UK sector of the North Sea and one of only a dozen or so in the world, industry observers expect them to become an increasingly common sight in coming years. Wood MacKenzie, the Edinburgh-based oil consultants, earlier this year estimated that nine UK North Sea fields being considered for development will use some form of floating production system, with two-thirds expected to adopt a ship-shape solution similar to the Gryphon.

The effectiveness of FPSOs have been enhanced by progress in a number of technical areas. The method used to keep the Gryphon on station is straightforward: a turret at the centre of the vessel is secured to the seabed by 10 anchors, each weighing 35 tonnes. The vessel, which has five thrusters mounted along its hull, is able to rotate around the turret so that it is always lying head to the wind.

The "smart" part of the system lies within a sophisticated computer software system. It receives precise navigational data from automatic electronic identification systems, or "transponders", on the seabed and satellite transmissions. It also receives constant weather data and updates on the stresses on

each anchor chain, before recommending to the crew that they activate one or more of the thrusters.

The system can also "learn the weather and react to it", according to the Gryphon's crew. Its effectiveness is such that the maximum lateral motion experienced by the ship in last winter's Force 10 gales, with winds gusting to 120 miles an hour, was 30 feet, although it can move more than three times that.

Other technical advances have also made FPSOs more cost-effective. New metal alloys, for example, have helped to reduce the cost of the flexible pipes which lead from the wells, located on the sea bed 1,500 metres from the ship.

Kerr-McGee executives expect the operating costs of the Gryphon to be relatively low. The vessel is not due to return to port during its planned 15-year stay in the North Sea. The double-skinned hull allows inspections to be made on site, says Roy Phillips, while the hull is protected from corrosion by an electrical system, or anode array.

But the big cost advantage of FPSOs over their fixed counterparts will come when the field is depleted. For the Gryphon, with a life expectancy of 40 years, will be able simply to weigh anchor and steam to a new site anywhere in the world.

The world's biggest and brightest X-ray source, the 2300m European Synchrotron Radiation Facility, begins operating this week.

Twelve European nations have clubbed together to build the ESRF in Grenoble, at the foot of the French Alps. It will give academic and industrial researchers a super-microscope for probing the atomic and molecular structure of materials.

Several thousand scientists are expected to use the ESRF over the next few years from many fields, including physics, chemistry, biology, materials science, geology, environmental studies and medicine. Applications range from examining surface corrosion of metals to identifying the structure of enzymes as potential targets in pharmaceutical research.

The ESRF has 11 X-ray beams in operation, generating radiation one billion times brighter than a typical hospital X-ray machine. By 1998, 40 beams will be available.

X-rays are well suited for probing molecular structures because their wavelengths – less than a millionth of a millimetre – are similar to the distances between atoms in molecules.

The main technique for discovering the structure of an unknown compound, X-ray crystallography, has been known for 80 years. Its best known success was in enabling James Watson and Francis Crick to propose a double helix structure for DNA.

But deducing a structure from an X-ray diffraction pattern is still a very tricky and time-consuming job; the brilliant, narrowly focused beams from the ESRF will give clearer patterns than conventional sources.

Synchrotron radiation is given off whenever charged particles are accelerated close to the speed of light. When scientists first observed the phenomenon in the primitive particle accelerators of the 1940s, they found it a nuisance because it diverted energy from the particles.

But by the 1960s they realised that synchrotron radiation was a useful research tool in its own right and they started to tap the X-rays emitted by accelerators that had been designed for fundamental physics research.

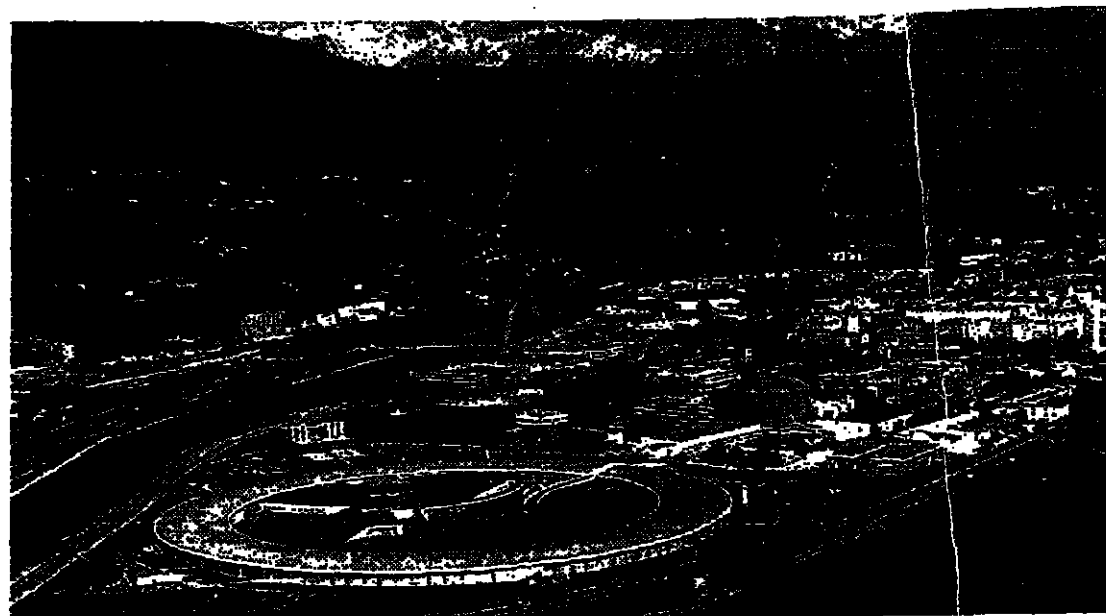
During the 1970s and 1980s, about 40 accelerators were built around the world as dedicated synchrotron radiation sources.

The ESRF is the first of a new generation of ultra-bright synchrotron machines. It will be followed by the US Advanced Photon Source, due to begin operations at the Argonne National Laboratory near Chicago in 1996, and Japan's SpRiNG-8 at Tsukuba science city in about 2000.

In the ESRF an intense beam of

Clive Cookson on a new 'super-microscope' facility for probing the structure of molecules

## X-ray vision of the future



Brilliant development: the first of a new generation of ultra-bright synchrotron machines starts operation this week in Grenoble

electrons, as thin as a human hair, accelerates around a giant ring 844 metres in circumference. An array of magnets keeps the beam in shape and controls the radiation. There are 64 "bending magnets" to direct the electrons around the ring, and special "wigglers" and "undulators" to make the beam twist and turn in a way that gives off particularly intense X-rays.

Industrial researchers will have two routes to using ESRF. If they want to keep their work secret, they will be able to buy time on the machine at a rate of £3,300 per eight-hour shift.

Alternatively, if a company intends to publish its experimental results, it can submit a proposal to the ESRF "peer review" panels which divide up the machine's "public time" between competing research groups according to their scientific merit.

Richard Oldman, a chemist at ICI, the UK chemicals group, has been allocated beam time during the first round of experiments this autumn, for a collaborative experiment with Keele University to investigate the structure of polyester, a common

polymer (plastic). He and his colleagues will be making molecular movies, to see how the long polyester chains behave during industrial processing.

"Polyester is widely used in industry, for example to make plastic bottles for soft drinks," Oldman says. "We hope to learn more about the way the polyester chains relate to the mechanical properties of the bottle, so that we can sharpen up our processing and make stronger plastics."

ESRF will also have a medical beam. This will be perfectly suited to angiography, for example, enabling researchers to take detailed pictures of the fine blood vessels around the heart, whose narrowing is a sign of cardiovascular disease.

As well as the main public beam-lines, which will be used for a great variety of short-term studies, the ESRF has reserved several slots for long-term projects. For example, the UK Engineering and Physical Sciences Research Council has given Malcolm Cooper of Warwick University and William Stirling of Keele University a £3.3m grant to build an

X-ray facility for British scientists to study the structure of magnetic materials.

Cooper says there are several reasons why the ESRF will enable them to do research that would not be possible with less powerful national X-ray machines such as the UK Synchrotron Radiation Source at the Daresbury Laboratory in Cheshire. One is that ESRF beams "can be focused down to small focal spot sizes (less than 0.2mm by 0.3mm) so that small samples and thin films can be studied".

Even when the ESRF is fully operational, the demand for intense X-rays will be great enough to require new national synchrotron sources too, Cooper and Oldman say.

In the UK, government-funded research councils are considering spending about £100m on a Medium Energy X-ray Source as a successor to the Synchrotron Radiation Source at Daresbury. If MEIXS goes ahead, it will start operating in 2001 or soon afterwards.

There is no doubt that X-rays have a brilliant future in materials research.

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## PEOPLE

## Newton sails into Kingshott's harbour

Sir Wilfred Newton, 65, the former chief executive of London Transport, has been appointed non-executive chairman of John L Jacobs, the small ship-broking and transportation group headed by Michael Kingshott, chairman of the Salford ferry line.

Kingshott, who reversed his private Sheertrucks vehicle transportation business into Jacobs a few months ago, wants to develop Jacobs into a broadly-based shipping, transport and property group.

The company is currently capitalised at less than £20m but is known to be interested in bidding for Embassy Property, where Kingshott is deputy chairman. Last week it agreed to manage the Dartford

International ferry terminal and announced that the terminal's first customer will be Salford Freight which is launching a two-ship freight service between Dartford and Vlissingen.

Sir Wilfred (right), who sits on the boards of HSBC Holdings, its subsidiary Midland Bank, and Sketchley, qualified as an accountant in South Africa and had a varied career in industry before being appointed chairman of the Mass Transit Railway Corporation in Hong Kong in 1983.

Kingshott said that he had been keen to recruit a chairman who was not just a "mate of mine" and had a good knowledge of the transportation business. He said he had found



Sir Wilfred through his merchant bank (Hambros) and his own personal network. Kingshott, the biggest single shareholder in John L Jacobs, intends to rename the company and appoint more non-executives to his board. Earlier this month, Paul Pascan, Salford Line's financial controller, was appointed a non-executive director.

## Non-executive directors

■ Martin Hamilton-Sharp at NORTHERN INVESTORS COMPANY; Rhoderick Swire has resigned.

■ Anthony Heron, formerly a senior partner in Touche Ross as chairman at HARRINGTON KILBRIDE.

■ John Craig, a director of the International Fund for Ireland, as chairman at BELFAST INTERNATIONAL AIRPORT HOLDING COMPANY.

■ Murray Air, vice-president strategic planning and development of Amoco Technology, at OXFORD MOLECULAR, which recently bought IntellGenetics from Amoco.

■ Michael Bentley, former deputy chairman and chief

executive of Electra Investment Trust, as chairman at ENVIRONMENTAL INVESTMENT COMPANY on the retirement of Graham Nutter.

■ Basil Bean (below), retiring chief executive of the National House-Building Council, at ADMIRAL HOMES.

■ Ronald Taylor has retired from S JEROME & SONS (HOLDINGS).

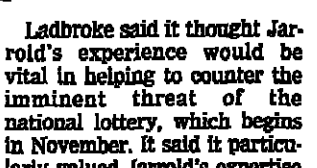
■ Peter Stanley, former chairman of Williams de Broe and former member of the Stock Exchange Council, at BWD SECURITIES.

■ Miles Templeman, md of Whitbread Beer, at the ALBERT FISHER GROUP.

■ Chris Thomas, chief executive of Hanson Industrial Services, and Peter Turner, an associate director of Hanson, at SCHOLES GROUP.

■ Lord Hartington, a director of private family companies including those managing Chatsworth and the family estates and chairman of the The British Horseracing Board, at SOTHEBY'S HOLDINGS.

■ Alan Fryer, a director of Smith & Nephew, at HUNTING.



## Philip Jarrold: from puddles to pools

After four years in disposable nappies, Philip Jarrold has decided it is time for a change. Jarrold, managing director of Peapod, the nappy manufacturer, is to head Vernons, Ladbroke's pools division, from next month. Jarrold, 44, had been with Peapod, part of the Swedish SCA/Molnlycke group, since 1990.

He has previously worked for Reed Elsevier, Kraft Foods and Mars.

Ladbroke said it thought Jarrold's experience would be vital in helping to counter the imminent threat of the national lottery, which begins in November. It said it particularly valued Jarrold's expertise in dealing with retailers.

Although pools coupons are often available in tobacconists' shops, their legal status in retailers' premises has been unclear. However, as part of the attempt to allow other



gambling products to compete with the national lottery, pools companies are being given a formal right to distribute coupons through retail outlets.

## Foley quits Triplex Lloyd

The managerial merry-go-round at Triplex Lloyd, the West Midlands engineering group, took another whirl yesterday as John Foley stepped out as group managing director and Graham Lockyer stepped in.

Lockyer, 47, a former Dowty executive, joined Triplex Lloyd only in July as group operations director, reporting to Foley. Foley, 38, became finance director in 1989 and, since 1991, a partner with Colin Cooke, the chairman, in the reorientation of Triplex Lloyd as a group concentrating on precision components.

Cooke said there was "an amicable understanding" with Foley. "We need a strong operations guy – we're a very technical company," Lockyer is just that in Cooke's view.

Foley's background is accounting and the law, while his talents, according to Cooke, "are more on the financial, acquisitions side". Foley and Cooke have apparently been talking about Foley's future since early summer, so Lockyer's arrival fore-shadowed Foley's departure. "I'm perfectly relaxed about it. I'd like to go off and do other things," Foley says.

WEW, the company previously known as Amber Day which runs the What Everyone Wants chain of discount stores, has lost another senior executive. Elaine Gray, 34, the buying director, has left by mutual agreement for "personal and private reasons".

Peter Carr, chairman, says he is sorry to lose Gray, who joined the company at a young age and worked there for nearly 17 years.

Following the resignation last month of managing director Ian Grabner, and the loss of a chief executive and two chairmen within the past two years, Gray's departure is a blow for the group, which is currently engaged in an expansion programme. However, Carr says recent restructuring of the buying department, with the addition of four new people, will lessen the disruption caused by her departure.

Keith Hutchinson, joint deputy md of Wm MORRISON SUPERMARKETS, is taking early retirement because of continuing ill health.



## Pre-Raphaelites unbuttoned

William Packer admires the exhibition of drawings at the BM

The richness and scope of the collections in the British Museum's Department of Prints and Drawings alone, to say nothing of the whole place, are an unending source of surprise and delight. And it is gratifying to discover that even in these lean times, the work of scholarly accumulation has quietly gone on. Two new displays, drawn entirely from within the collections, the one of English drawings and water-colours, the other of French Prints, neatly make the point. Both are comparatively modest in scale, yet both are as comprehensive as one could wish.

But why are drawings still so much the province of the specialist and connoisseur? Is it that they, vulnerable and fugitive, are altogether too problematical for the ordinary collector? Is it that the market itself, conforming to prejudice, is still reluctant to set an inherent rather than a comparative value to works on paper, save with proven or rarer masters?

For myself, I would as soon be engrossed by drawings, old or new, as by any of the more substantial works, to which, perhaps, they led. For with drawing we find ourselves taken immediately into the intimate presence of the artist, unselfconscious in his private engagement with his subject, his interests and ideas. We are with him in his scrutiny of the figure or object, with him as he teases image from imagination; ever following his hand across the page.

In all of this the pre-Raphaelites are admirable companions. In their youthful, mid-Victorian, high-minded earnestness, they can be quite as off-putting as they are fascinating. We may admire the technical accomplishment and beauty of the work, and yet recoil still from the religiosity, the sentimentality, the priggishness. Or so we might say of the full-dress paintings.

But here they are with their colours loosened, as it were, lively and personal in their address and as light-hearted and funny as they are serious. They work up their formal compositions as the nearest sketches and cartoons; they draw their mod-

els and lovers with easy familiarity and affection; they sit in the field and paint the barns and houses as the sun goes down.

And yet, for all the apparent informality or simplicity, these are works of real achievement, and often the more so for being so slight or modest. Millais' skinny lady delicately cuts a flower from the trellis, her little boy up to no good by her side, an image that contrives to be at once ideal, statuesque and a miracle of amused and accurate personal observation. Rossetti turns incessantly to his adored Miss Siddal, now standing, sitting, day-dreaming, now wind-swept on the beach with a gentleman friend.

Charles Collins' studies for his "Railway Accident" combine poignancy with reality, the lady anxious at the clerk's shoulder as the news comes through on the telegraph. Ruskin paints the ivy on a rock, George Boyce, exquisitely, a Streatley farmhouse, Henry Holiday two women in fancy-dress, Burne-Jones a wistful Annunciation. Frederick Sandys' drawing of stunning Ruth Herbert is magnificent. There are many such treats.

The Shadow of the Forest, in the same room, is a collection of prints by the artists of the Barbizon School, more or less the pre-Raphaelites' contemporaries. Barbizon is a village on the edge of the Forest of Fontainebleau, south-east of Paris, which artists had been visiting since the early 19th century. The ascription to it of a school of painters is more convenience than hard art-historical fact, for artists came and went in the loosest of fellowships. It is rather in their commitment to working close to the landscape in the open air, in which they fore-shadowed the impressionists, that the significance of Barbizon's painters lies.

They were by no means the first to do so, and the show makes no secret of their influences, from Constable and Bonington to Rembrandt and Ruysdael. Nor were they particularly print-makers. But the print, the etching especially, has always been attractive to artists for its convenience, given a workshop, and



Drawn into the intimate presence of the artist: 'Found', 1853, by Dante Gabriel Rossetti

directness. The multiple image largely met the problem of permanence, and there was throughout the 19th century the ever-growing attraction of publishing editions for the mass market.

But the engraved reproduction of paintings is a secondary business and less interesting in this context than the artist's direct engagement with the image, the plate and the processes of the print. A smaller

edition could always achieve a reasonable return. All the major figures are represented in this way - Millet, Daubigny, de la Pena, Corot, besides Jongkind and Israels from the Hague.

In every case, the closer they stay to the direct act of drawing, and to the particular qualities of line and tone that only the etching can achieve, the better. And Corot stands out among them all for the

sheer bravura of his line and touch. His use of the now obscure *cliché-verre*, that marries etching to photography, could not be more sympathetic.

Pre-Raphaelite Drawings in the British Museum: Shadow of the Forest - Prints of the Barbizon School: both exhibitions at the British Museum, Great Russell Street WC1, until January 8.

## The Tate short-lists 13 to build for the millennium

The race is on to design one of the most prestigious of the millennium projects, and one that seems likely to get the go ahead - the Tate Gallery of Modern Art on London's Bankside. Yesterday 13 architects were short-listed, with the field being whittled down to five by November 21, and the winner to be announced in February.

Two leading British architects, Norman Foster and Richard Rogers, who are already involved with millennium projects at the British Museum and the South Bank, decided not to submit. The candidates going forward, in an international list, are Alsop & Söhrmer; Arata Isozaki (Japan); David Chipperfield; Future Systems; Herzog & de Meuron (Switzerland); Michael Hopkins; Nicholas Grimshaw; Office for Metropolitan Architecture (Netherlands); Rafael Moneo (Spain); Renzo Piano Building Workshop (Italy); Rick Mather; Rolfe Judd; Claudio Silvestrin; and Tadao Ando (Japan).

The building will cost at least £40m (while the overall cost will be £80m) and work should start in the

summer of 1996 in readiness for an opening in 2000. The Bankside project is unusual in that it involves an existing building, Gilbert Scott's 1947 power station, most of the exterior of which will be retained. Because the gallery will house mainly 20th-century art, there seems to be no prejudice against an overseas architect and Tadao Ando has already been tipped as a possible winner.

Now the Tate's director, Nicholas Serota, will embark on an acquisition drive to plug the gaps in the Tate's modern collection before 2000. He will buy works, but also hopes for gifts from Friends of the Tate and will be approaching leading artists asking for fine examples of their work in return for immortality.

Meanwhile work will start next year on the revamp of the old Tate, which will increase the space available to show British art by a quarter. It is made possible by a £12m donation from an anonymous American benefactor.

Antony Thorncroft

## Theatre in New York/Karen Fricker

### Philadelphia, Here I Come

The New York theatre season is off to a promising start with Joe Dowling's top-notch revival of Brian Friel's early play *Philadelphia, Here I Come*, at the Roundabout Theatre. After the Broadway failure last year of Friel's strained, heavy-handed *Wonderful Tennessee*, New York needed to see this Irish playwright at his best. And *Philadelphia*, which premiered in Dublin in 1984 and on Broadway in 1986, is *echt* Friel: poetic, wistful, aching, and funny. It is full of the playwright's characteristic fascinations: memory, the isolation of a transcendent moment of happiness, and above all, the Irishman's search for personal and national identity.

Like many of Friel's plays, *Philadelphia* is set in the fictional town of Ballybeg, on 25-year-old Gareth O'Donnell's last night in Ireland before he leaves, probably forever, for America. Gar is of two minds about going away, which Friel represents quite literally: two actors play Gar, one his outer self (Jim True), and the other his private thoughts (Robert Sean Leonard).

His mother long dead, Gar lives and works with his uncommunicative father (Milo O'Shea), who still treats the young man as if he were a child. In the play's best scene, father and son exchange banalities at the dinner table, while Gar's old age mocks, curses, wheedles and exhorts the expressionless older man.

Even more tragic than the boy's non-relationship with his father is his estrangement from himself. Behind closed doors, both public and private selves come alive, but around other people, Gar watches life happen, inwardly commenting on the action but unable to participate. Gar's passivity has already bred one catastrophic mistake: he let the girl he still loves (the radiant Miriam Healy-Louise) get away, a painful episode he recalls in flashback.

Most of the play, however, progresses in real time, as various people pass through the house to give Gar their regards. As much as Friel casts a cynical eye on Irish society, he does not romanticise the alternative: America's representative is

Gar's brash and pretentious Irish-American aunt, whose invitation to Philadelphia offers Gar his escape.

Dowling's production has a marvellously directorless quality, as if the events on stage were happening for the first time. The two young actors are excellent. True plays out Gar like a brooding time bomb, while Leonard is a fine inner Gar, capturing both the character's cynicism and his childishness. The redoubtable O'Shea and Pauline Flanagan fit so naturally into their roles as the father and his loving but acid-tongued housekeeper that John Lee Beatty seems to have designed them as part of the picture-perfect set.

American appetites whetted for more Friel will be satiated later this season: Noel Pearson is planning a Howard Davies-directed Broadway production of the playwright's 1981 *Translations* in March, and talk of bringing Friel's latest, *Molly Sweeney*, to New York has surely escalated after the *New York Times* rave review of its premiere production at Dublin's Gate Theatre earlier this month.

George Theatre 312-988 9000

#### GENEVA

● Anne Sofie von Otter and Gösta Winbergh are soloists in Mahler's *Das Lied von der Erde* in concert by the Suisse Romande Orchestra tonight and Fri at Victoria Hall and on Thurs in Lausanne (022-311 2511)

● Idomenico, conducted by Armin Jordan and staged by Christopher Alden, is given a final performance tomorrow at the Grand Théâtre. The next production is a ballet mixed bill opening Oct 10. Peter Schreier gives a song recital on Oct 13 (022-311 2311)

● St Petersburg's Tovstonogov Theatre presents a two-week run of Ostrovsky's *Diary of a Scoundrel* at Théâtre de Carouge, opening on Sat (022-343 4343)

#### THE HAGUE

Dr Anton Philipszaal Thurs, Fri, Sun afternoon: Günther Herbig conducts Hague Philharmonic Orchestra in works by Hindemith and Brahms (070-360 9810)

#### ROTTERDAM

De Doelen Tonight: Orlando Quartet plays string quartets by Haydn, Shostakovich and Brahms. Tomorrow: Mozart choral and orchestral concert. Fri: Hans Vonk conducts Rotterdam Philharmonic Orchestra in works by Beethoven and Schel, with piano soloist Jean Bernard Pommier. Next Mon: Frans Brüggen conducts Radio Chamber

Orchestra in Joachim, Schumann and Brahms, with violinist Thomas Zehetmair (010-217 1717)

#### VIENNA

● The State Opera Ballet has a new production at the Volksoper based on Lehár's *Die lustige Witwe*, choreographed by Ronald Hynd. The State Opera will remain closed for technical alterations till Dec 14, but Riccardo Muti will conduct seven performances of *Così fan tutte* at Theater an der Wien, beginning Oct 30 (51444 2959/51444 2959/513 1513)

● Peter Handke's wordless play *The Hour We Knew Nothing of Each Other* joins the repertoire of the Burgtheater this week, in the international touring production directed by Luc Bondy. The Akademietheater has Wolfgang Engel's new production of Shakespeare's *Titus Andronicus* (51444 2959/51444 2959/513 1513)

#### WASHINGTON

MUSIC/DANCE ● Neville Marriner conducts the Academy of St Martin in the Fields on Sat late afternoon at Kennedy Center Concert Hall. The programme includes Tchaikovsky's Violin Concerto (Lilla Josefowicz) and Elgar's *Enigma Variations* (202-467 4600)

● Ballet Folklorico de Mexico

gives performances at the Lisner Auditorium on Sat and Sun, with choreographies by Amalia Hernandez (202-633 9800)

#### THEATRE

Flyin' West: this play about courage and frontier justice in late 19th century America, produced by New Jersey's acclaimed Crossroads Theatre, runs at Eisenhower Theater till Oct 9 (202-467 4600)

● The Rise and Fall of Little Voice: Jim Cartwright's play, about a young girl with an ability to mimic pop female vocalists, runs till Oct 9 at Studio Theater (202-332 3300)

● A Perfect Gansh: Terrance McNally's play about two New England matrons on a personal quest journeying through India. Till Oct 30 at the Kreeger (202-488 3300)

#### ZURICH

Opernhaus Thurs, Sat: Adam Fischer conducts Cesare Lievi's new production of *La Cenerentola*, with cast headed by Cecilia Bartoli. Fri: choreographies by Bernd Blenert, music by Mozart. Sun afternoon: Die Zauberflöte. Sun evening: Tosca with Mara Zampieri and Neil Shicoff (01-262 0909)

Tonhalle Tonight, tomorrow, Thurs, Fri: Michael Stern conducts Tonhalle Orchestra in works by Smetana and Tchaikovsky, plus world premiere of Jindrich Feld's *Concerto for Flute and Piano*, with soloists James Galway and Phillip Moll. Sat: Edmond de Stoutz conducts Zurich Chamber Orchestra in all-Mozart programme, with piano soloist Andreas Boyde. Sun: James Galway flute recital. Mon: Ljilja Zilberstein piano recital. Galway has three more concerts next week (01-261 1600)

## Concert/David Murray

### Mahler's 2nd

All the equipment was in place for Mahler's Symphony no. 2 at the Barbican on Sunday, the second instalment of Michael Tilson Thomas's Mahler cycle. The London Symphony was on cracking form, with the requisite extra brass, and the London Symphony Chorus in glad cry; two excellent solo voices made vivid personal contributions (very welcome) to the massive sound. This was certainly a "Resurrection" Symphony to wake the dead.

If you detect a note of reserve in this, it may indicate nothing more than a jaded appetite. Mahler's grandiose canvas was brightly lit up (granted a couple of smudges in the offstage brass, which made no difference), and the newly improved acoustic proved itself again at the monster climaxes - plenty of impact, without clotting or congestion. There was little in the way of chiaroscuro, nor does the Barbican Hall afford much room for depth-effects.

Tilson Thomas delivered the score with sharp precision and some mildly unusual ideas. The low-strings recitative at the start was fast and hard, *tempo giusto*, a far cry from the sullen lament that older conductors used to make of it, but most of that opening movement was solemn and quiet; so too the Andante moderato, though tautly

measured. Contrariwise the Scherzo, made newly famous by Berio's *Sinfonia*, went like the wind: the sense of a sinister *moto perpetuo* was enhanced, at the loss of any black humour.

The "Urlicht" movement went to the Parisian contralto Nathalie Stutzmann, whose exquisitely wrought line came in a lovely, dusky timbre. Suddenly the symphony showed a human face. Nina Stemme (Cardillac's "Singer of the World" last year) joined her in the Finale, with a fine-spun, tremulous tone perfectly adapted to her music. The timpani thundered mightily, and the Chorus roared their heads off. One felt a bit battered at the end.

What to play with Mahler Two is always a problem. It is a tad short for an evening, but hardly brooks anything substantial by way of programme-filler. Tilson Thomas opted for a little Oliver Knussen commission from six years ago, his racing, twinkling "Flourish with Fireworks" (it nods gracefully to Stravinsky's *Fireworks*), and an earlyish Krenek piece *Die Nachtigall*, for coloratura soprano with flutes and strings, in which Sarah Leonard warbled with all her customary charm. It seemed hardly ten minutes before we were out in the bar again for the interval.

## Opera in San Francisco/Timothy Pfaff

### Dangerous Liaisons

Two centuries and numerous stage and screen adaptations later, *The Dangerous Liaisons* emerged in a new incarnation as The San Francisco Opera mounted the world premiere of Conrad Susa's and librettist Philip Littell's opera.

It is baffling that the company commissioned Susa to create its first full-scale premiere in 18 years. It had previously produced two Susa operas for a spring season (*Transformations*) and for its apprentice singers (*The Love of Don Perlimplín*), neither of which proved musically memorable occasions. While *Liaisons*, now being filmed for television, may well prove more memorable, its musically feeble score is unlikely to linger long in the mind.

Ironically, for an opera about people obsessed with appearances and style, Susa's score is virtually devoid of a unifying musical style - or even personality. The orchestral carpet is a tangle of meandering sounds and the vocal writing lacks tension, shape, and even a rudimentary sense of direction. But for all that, San Francisco's expert cast, headed by Frederica von Stade as the Marquise de Merteuil and Thomas Hampson as the Vicomte de Valmont, took to the vocal parts as if they were top-drawer Verdi.

Strangely, the most obvious blemish on Susa's score, its orchestration, may not represent his own work. The programme discreetly identified Donald Ontiveros, Manly Romero, and an entity called Music Publications Technologies under a new category, "Orchestration and editorial assistance." And in the weeks preceding the premiere there were rumours of other people, with the requisite musical acumen (or the right software), orchestrating this passage or that.

Music director Donald Runnicles lent his customary dressless energy and cogent leadership to the enterprise, but there is a limit to what even a music director can ask. In most other respects, the makings of a promising opera seemed on hand. Littell's English verse libretto - drawn directly from the Pierre Choderlos de Laclos novel - proved serviceable, although Susa's heavy hand with the musical appli-

qué did make one grateful for the surtitles. Production director Colin Graham cleverly realised the letter motif that underlies every aspect of this complex tale and effectively showed the overlapping of scenes, characters, and even time and space frames that are at the heart of Littell's play.

Resident designer Gerard Howland's fluid settings and costumes unearthed subtle connections within the overall picture of decadent beauty. And Thomas Munn's lighting was dramatic and narrative in its own right. All that said, it was the cast that made the work as involving as it became. (Subject matter notwithstanding, the long first act was simply dull.) As the Marquise de Merteuil, Frederica von Stade was formidable and husky of tone one minute, vulnerable and kittenish the next, and typically - but arrestingly - sympathetic in her portrayal.

Thomas Hampson's Valmont was similarly fine-grained, convincingly sinister and susceptible without once defaulting to stage cliché. Renee Fleming's melting, then molten, performance as the tormented Madame de Tourvel took over the second act, as it should.

Judith Forst's imperious Madame de Volanges, Mary Mills' complex and affecting Cecile, and Johanna Meier's worldly-wise Madame de Rosemond were accomplished, affecting musical characterisations. Australian tenor David Hobson's Danceny was convincingly hormonal but had yet to come into focus. The comprimario roles were played faultlessly.

Despite the cumulative theatrical power of this *Liaison*'s second act, it is so musically evanescent as to become, in the end, insubstantial and unmemorable. As currently scored, Conrad Susa's *The Dangerous Liaisons* becomes the latest entrant in a dispiriting string of American opera premieres. In a savagely defiant final tableau, von Stade's Merteuil - in a harsh caricature of Strauss' *Capriccio* Countess departing for a dinner of Welt-schmerz - exits with the raspy, vulgar exclamation, "I'm hungry." So, it happens, are we.

## INTERNATIONAL ARTS GUIDE

### AMSTERDAM

Concertgebouw Tonight: Jessye Norman song recital. Tomorrow: Lev Markiz conducts Nieuw Sinfonietta Amsterdam in works by Mendelssohn and Liszt. Fri: Edo de Waart conducts Radio Philharmonic Orchestra in Dukas, Brahms and Bartok, with violinist Alexander Barantschik and cellist Floris Minders. Sat, next Mon and Wed: Hartmut Haenchen conducts Netherlands Philharmonic Orchestra in Wagenaar, Beethoven and Brahms, with piano soloist Karin Lechner. Sun morning: Frans Lechner. Sun morning: Frans Lechner conducts Radio Chamber Orchestra in Schumann and Brahms, with violin soloist Thomas Zehetmair. Sun afternoon: Jan-Willem de Vriend conducts Combattimento Consort in baroque programme. Oct 8: Alfred Brendel (020-671 8345) Muziektheater Tonight: Nederlands Dans Theater in choreographies by Kylian and Naharin. Tomorrow, Fri: Hartmut Haenchen conducts final performances of David Pountney's production of *Lady Macbeth* of Mtsensk. Sat: Graeme Jenkins

conducts first of 11 performances of Jürgen Fimm's production of *Le nozze di Figaro*, with cast headed by Dean Fegerson and Joan Rodgers (020-625 5455)

### ANTWERP

de Vlasma Opera A new production of Don Giovanni, conducted by Silvio Varviso and staged by Guy Joosten, opens on Fri (repeated Oct 2, 4, 6, 8, 11). The cast is headed by Jeffrey Black, Hillevi Martinpelto and Patricia Racette (03-233 6695)

### BRUSSELS

Théâtre National Tonight: Belgian premiere of Tony Kushner's *Angels in America* (first part - *Millennium Approaches*), directed by Brigitte Jacques. Daily except Sun and Mon till Oct 19 (02-217 0303) Palais des Beaux Arts Tonight: Philippe Herreweghe conducts Orchestre des Champs-Élysées in works by Mendelssohn and Berlioz. Thurs: Alicia de Larrocha piano recital. Fri: Antoni Wit conducts Belgian National Orchestra, with young prizewinners as soloists. Next Tues: Murray Perahia piano recital (02-507 8200) Monnaie Sat: first night of new production of *Tristan und Isolde*, conducted by Antonio Pappano and staged by Achim Freyer, with cast headed by Ronald Hamilton and Anne Evans. Repeated Oct 5, 9, 13, 18, 22 (02-218 1211)

### CHICAGO

MUSIC Lyric Opera The opening production

of the season is Boris Godunov, staged by Boris Yeltsin

conducted by Bruno Bartoletti (next performances tonight and Sat, continuing till Oct 14). Samuel Ramey sings the title role in most performances, but is replaced by Vladimir Matorin on Oct 1 and 5. Graham Vick's new production of *The Rake's Progress* opens on Sun afternoon, with a cast headed by Jerry Hadley, Ruth Ann Swenson, Samuel Ramey and Felicity Palmer (312-332 2244) Chicago Symphony Daniel Barenboim conducts a choral programme tonight featuring Bruckner's setting of Psalm 150 and the Beethoven Choral Fantasy. Barenboim also conducts a Schoenberg and Brahms programme (Sep 29, 30, Oct 1, 2 and 4) and Bruckner's Eighth Symphony (Oct 6, 7, 9). The Newport Jazz Festival, featuring 11 well-known artists playing New Orleans jazz and swing, hosts a concert on Fri (312-435 6666)

### THEATRE

● A Clockwork Orange: the American premiere of the stage version of Anthony Burgess' classic novel. Opens tonight at Steppenwolf Theatre (312-335 1650)

● Laughter on the 23rd Floor: Neil Simon's newest comedy about the golden days of live TV comedy (Erie Street Theatre 312-348 4000)

● Later Life: A.R. Gurney's lovely, ruminative play about finding romance after the age of 40 (Northlight Theatre 312-327 5588)

● Angels in America: Tony Kushner's two-part epic is directed by Michael Mayer, with Jonathan Hadary as Roy Cohn (Royal

### ARTS GUIDE

Monday: Berlin, New York and Paris. Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington. Wednesday: France, Germany, Scandinavia. Thursday: Italy, Spain, Athens, London, Prague. Friday: Exhibitions Guide.

### European Cable and Satellite Business TV

(Central European Time) MONDAY TO FRIDAY NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY NBC/Super Channel: FT Reports 1230.

TUESDAY EuroNews: FT Reports 0745, 1545, 1815, 2345

WEDNESDAY NBC/Super Channel: FT Reports 1230

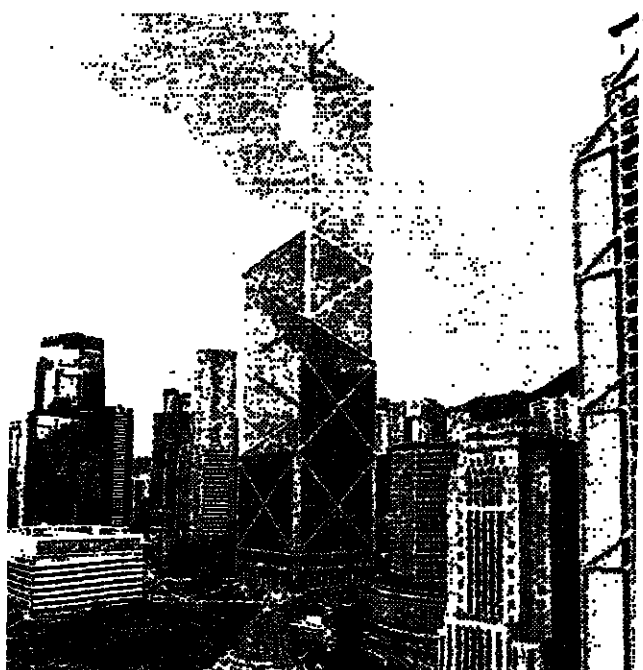
FRIDAY NBC/Super Channel: FT Reports 1230 Sky News: FT Reports 0230, 2030

SUNDAY NBC/Super Channel: FT Reports 2230 Sky News: FT Reports 0430, 1730;



## Gateway to China

Simon Holberton on investment banks moving into Hong Kong



Regional hub: Hong Kong's financial district rises and rises

summer with the aim of "building an integrated investment banking business that has a base in Hong Kong and is spread throughout Asia". He says that most of the bank's expansion in staffing will be in Korea and Taiwan - which Warburg will soon upgrade to full branch status - and possibly in Singapore.

But by far the bulk of the bank's expansion plans are for their Hong Kong operations. Many of Asia's other markets are monitored by regulators, who are wary of foreign securities companies and worried that they may lose control of their exchange rates and markets to foreigners.

Hong Kong also has the advantage of its proximity to China. Many overseas Chinese are using their operations in Hong Kong as a springboard into China, raising capital in the colony for operations on the mainland.

Typical is the Lippo group, an Indonesian Chinese group, which holds most of its public assets in Hong Kong, but is directing its operations at business opportunities in finance, hotels, electrical power and ports on the mainland, especially in Fujian, the group's ancestral home.

Banks also see the colony as a gateway to China. Many have stationed their "China teams" in Hong Kong, until they can be transplanted to Shanghai or Beijing - using the colony as a staging post to marshal their resources. These operations are necessarily more short-term.

Most of these investments are being made on the basis that the investment banks intend to stay in Hong Kong. They are not expanding with the intention of getting out tomorrow. Banks are betting on the colony as a future financial centre.

Should times become too troubled, the banks would be able to move out of Hong Kong just as quickly as they are moving in. Investment banking is a relatively mobile industry.

And they see their other Asian offices as a way of spreading their risk: "You could do it all from Hong Kong but you don't put everything here; political risk militates against that so you build up the regional offices," says one banker.

But what they are really betting on is China. Says Mr Ward of Warburg: "While there will be undoubtedly political uncertainty, Hong Kong's importance as a financial centre will continue. You either believe in China or you don't. We do."



Joe Rogaly

## Helping Providence along

The changes to the Labour party are not quite complete. There is more work to do. For a start there is that dreadful colour, red.

Blue is so much more sympathetic. Then there is that awful song, the *Red Flag*. Surely something better could be sung at the conclusion of next week's party conference? *Land of Hope and Glory*, possibly?

The delegates might be given little Union Jacks to wave as the leader takes his bows. Not least is the need to look again at the party's name. We must be frank here. On its track record of the past 15 years, "Labour" is not exactly bankable as a harvest of hearts, minds and little crosses on ballot papers. The word "Conservative" springs to mind. That has proven potential.

Yeah yeah. Say it. The old cracks are truly the best ones. The line about *Land of Hope and Glory* is to be found in Tony Blair's "open letter to Tony Blair" from Demos, an eclectic think-tank. The Labour leader is doing well, but he cannot avoid such observations. During the past few years he has given some of us the impression that he seeks to make truly revolutionary changes to the Labour party. I suspect that, if he could, he would rename it - not "Conservative", of course, but, say, "Democratic".

Short of the absurd, Mr Blair will do what he believes is necessary to win. Perhaps he is mindful of the sermons of Hugh Blair, an 18th century divine whose works were known to Jane Austen. I like to imagine that the long-forgotten clergyman to whom she refers in *Mansfield Park* is one of the Labour leader's ancestors. "Let us then neglect no means which may be of avail for procuring the grace and favour of that divine Providence on which so much depends," this ancient Blair preached. "Because Providence is superior to us, it does not follow that therefore man has no part to act; or because our industry is sometimes disappointed, that therefore it is always in vain."

To date, little of Mr Blair's industry has been without fruit. Not content with snatching the label of purveyor of law and order from the Tories, he is engaged this week on an exercise designed to portray the government as a bunch of profligates and the people's party as the ark of fiscal prudence. Yesterday Ms Harriet Harman was put up to deliver an ingenious recalculation of the public expenditure tables, allocating so much to "rescue" spending and so much to "renewal". It appears that the former has risen and the latter fallen. Fancy.

We need not spend time debating whether the shadow chief secretary's sums are accurate. That is beside the point. What is going on is the manipulation of our perceptions. The Tories are branded tax liars, which is only right considering their ruthless disregard of veracity during the April 1992 election campaign. They have failed to manage the economy properly, says Labour, with less chance of being believed now that the prospect of a long period of non-inflationary growth lies before us. Never mind. We are to take it that "rescue" spending, on social security, is the consequence of Conservative economic failure. Today Mr Gordon Brown, the shadow

chancellor, will follow through with the argument that the old dispute about which party is likely to tax us more belongs to a bygone era. The terms of the debate are to be changed. There are no quick fixes on offer. Labour, he will intimate, will invest for the long term.

Decoded, this had better mean "no new taxes", or it will not help Providence to do its work of granting the opposition a spell in government. Mr Brown need not say as much in so many words. Like Mr Blair the shadow chancellor is blessed by his opponents, both inside his party and beyond. Think about it. The Labour

left, depleted in numbers, is still quoted on the airwaves. There will be trouble at next week's party conference, the broadcasts warn us. It does not sound like much of a threat to me. The traditional left is a potential converts that it will make the streets safe and change the employment market without raising taxes or restarting inflation. Labour's theft of chunks of the Tories' image is a direct response to this kind of research. It may not please Demos, whose wish-list demands that Mr Blair produce a vision of Britain as a "tele-workshop of the world". He is asked to end middle class tax reliefs to finance a basic income tax rate of 15 per cent, as suggested by Mr Frank Field some years ago, and adopt other policies regarded by Demos authors as radical. And why not? We all project our fantasies on to Labour's changing screen. Mr Blair's job is to select those that assist Providence to assist him.

The traditional left is a damp squib. It should be called the Pipsqueak tendency. As critics they are easily squashed

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

### Uncertain workers' rights

From Mr John Hall.

Sir, Your leader, "Workers' Rights" (September 21), rightly points out that the principle of employment established by the European Commission's Acquired Rights directive is inappropriate when applied to short-term contracts for public services.

While the revised directive to which the Commission has agreed goes some way to solving this problem, the wording is so uncertain that its scope could only be properly determined after litigation in the European Court.

Companies in the service sector have faced two problems with the directive over the past two years: the problem of applying it to service contracts, and legal uncertainty as to whether it applied in the first place. While the former might ultimately be solved by the Commission's proposal, this would follow a renewal of uncertainty which could take years to resolve.

Further clarity is required. Fortunately, the revised directive remains to be agreed by the Council of Ministers. It appears that several member states are now as concerned as the British government at the impact of the directive on their programmes of privatisation and contracting out.

Because of this, business interests across Europe must press for their national governments to demand further changes, clearly excluding service contracts from the scope of the directive, before it is agreed to by the Council of Ministers. John Hall, director-general, Business Services Association, 28-34 Eagle Street, London WC1R 4AN.

### Intemperate

From Mr Brian Knox.

Sir, I admire almost all Colin Amery's contributions, even when he omits cost as the prime reason why so few people commission architects to build new houses in England. But his outburst against architectural competitions is intemperate, ill-timed, and wrong ("The tyranny of the few", September 26). It could have been written any time in the last century and a half, what clearer target than that architectural competition? At least you gave equal prominence (Arts, September 24) to William Facker's admirable plea for professional judgment in the award of artists' prizes. Brian Knox, 23 Merton Lane, London N6

### Dissent because of misleading figures

From Mr Donald A. Main.

Sir, In his article "The Long View" ("When numbers deceive", September 24), Barry Riley expresses his concern at the obstacles in the way of measuring true performance. In the process, he castigates those who do not report return on capital and those who have problems with the latest accounting standard concerning acquisitions. One effect of

new accounting rules passed by the majority of the Accounting Standards Board is that figures for return on capital will become increasingly misleading because reported capital will not contain the total cost of acquisitions.

This was one reason for my dissenting opinion at the ASB. Donald A. Main, Mahogany Hall, The Common, Chipperfield, Herts WD4 9BX

### Consistency on prices

From Mr Ian Byatt.

Sir, Peggy Hollinger's article, "Water company appeals to MMC on price cap" (September 22) suggests that I have taken a tougher approach with South West Water as it had the highest charges and price increases since privatisation in 1989.

The Monopolies and Mergers Commission will doubtless look at this. I contend that the methodology I used in setting price limits was applied fairly and consistently across all companies.

It is not true that I promised South West Water (in 1991 at

the time of its interim determination) price increases after 1995 similar to its current K-factor of 11 per cent. At that time I had already announced that I would be resetting all the company price limits from April 1 1995, including South West Water's, at a periodic review in July 1994. It is only at periodic reviews that I am able to examine all the issues underlying price limits.

Ian Byatt, director general, Office of Water Services, Centre City Tower, 7 Hill Street, Birmingham B5 4UA

### Lottery must aid smaller arts applicants

From Mr Peter S. Gummer.

Sir, Antony Thornecroft's article on the lottery ("The lottery: will it end in tears?", September 26) and the financial help it will provide for the arts rightly highlights the need for cautious optimism. However, it fails to make several important points about the management and policy of the Arts Council of England, which is responsible for the distribution of these funds to arts organisations.

First, ACE is determined to provide a significant proportion of its lottery funds for small applications. They must not be disadvantaged. This would be against both the spirit and the letter of the lottery legislation. From these applicants we will not be

looking for matched funding but for real evidence that they have rigorously sought funds from private sources. If they can only raise 10 or 15 per cent of the total required then so be it. Indeed, we would consider revenue funding commitments from local authorities or the private sector, for example, as part of that 10-15 per cent.

Second, so important are the smaller applications that a flexible, lower limit for funds will be set at around £5,000 to encourage a balance between the size of successful applications.

Third, we are happy for those applying, but particularly smaller arts organisations, to come to the lottery first before going outside for

### Criticism of progress in India

From M Mohandas.

Sir, Stefan Wagstyl's analysis of India's economy ("Not nearly radical enough", September 19) deserves praise as it was very constructive and accurate.

I also trade with a very reputable Indian company and all the Indian businessmen I meet are unanimous in their criticism of the slow progress of Indian economic reforms. There are still many areas where the reforms have not achieved any real change. Foreign investors still have to pay hefty capital import duties for machinery. Interstate taxes also need urgent reform. As for Sri Chand Hinduja's letter (September 22) criticising Stefan Wagstyl's article, I cannot see it serving any useful purpose other than highlighting his involvement in power plant developments in India. It is also interesting to note Gordon Wu of Hopewell Holdings of Hong Kong is planning \$12.7bn power plants in India. This is even better news for India.

M Mohandas, 1 Park Avenue, London N3 2EJ

### Getting the message - but in English only

From Mr Max Hotopf.

Sir, My publishing business is relocating. As our customers cover the globe, I wanted to leave a message giving our new phone number in English, French and German. Imagine my utter amazement to discover that BT is incapable of doing this. The message can only be in English. And what is the cost of this recorded message? £50 a quarter! Right across Europe I listen

to recorded messages re-routing me in every language under the sun.

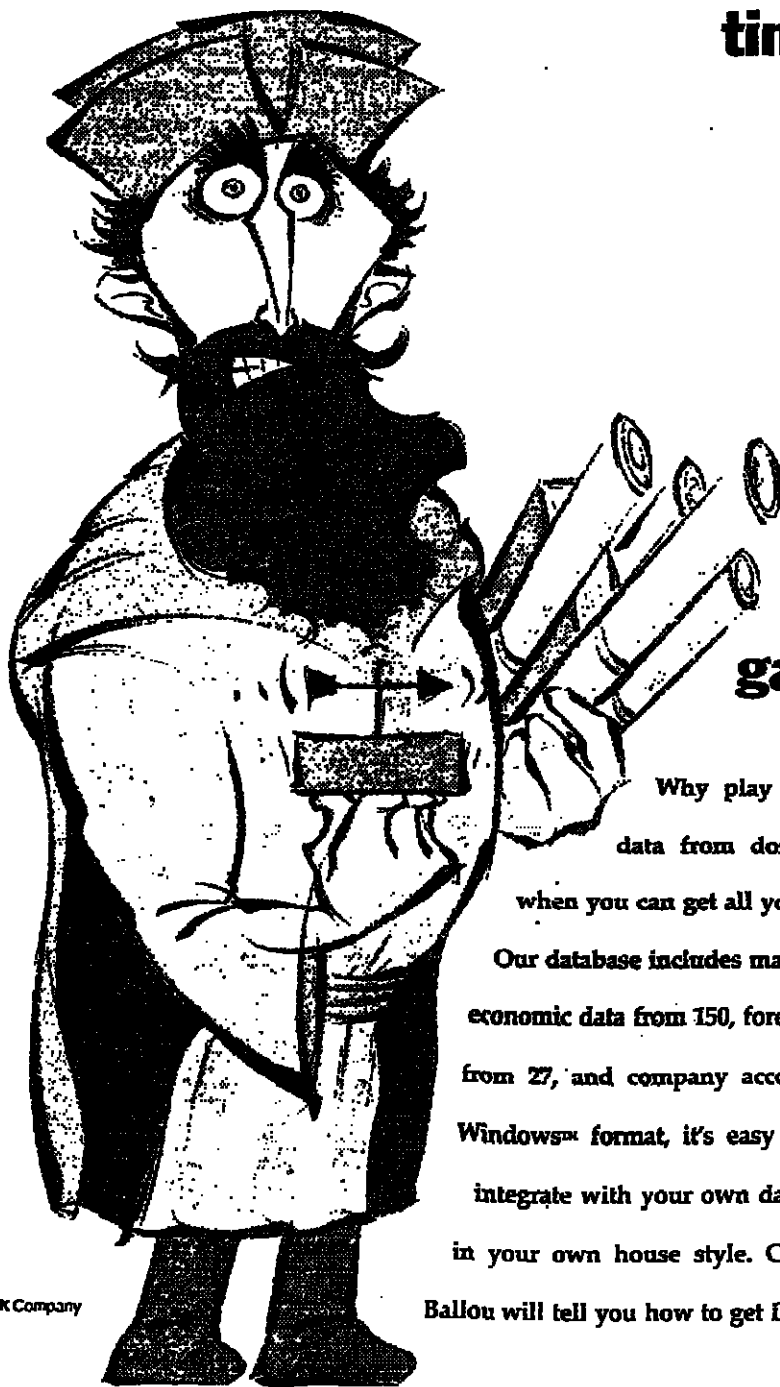
Yes, I could leave an answering machine on the line to give a message in English, French and German. But then, of course, I would have to continue to pay BT for the line.

The alternative is to have calls re-routed through to the new number. For this BT charges £22.60 a quarter plus a £50 charge for connection. The

service is only available for a minimum of 12 months - so the re-routing option costs a minimum of £380.40. And you have to pay local call rates on top for every transferred call.

Could all this reflect the fact that BT faces no competition in this area? Max Hotopf, chairman, Passant Publishing Corporation, Polstead Mill, Polstead, Colchester CO6 5AB

With better data on Far East trade, Marco would have had time for polo.



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## FINANCIAL TIMES

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Tuesday September 27 1994

## The state of the presidency

When the outsider Bill Clinton won the 1992 US presidential election, pundits most commonly attributed his victory to two things. On the one hand, there was a hostility in the country at large to political incumbents in general and to the Washington establishment in particular. On the other, Mr Clinton was seen as promising solutions to America's lengthening list of domestic problems, an agenda almost wilfully neglected by his predecessor George Bush, who made no effort to conceal his much greater interest in foreign affairs.

It thus seems cruel that the Clinton presidency should have arrived at its current pass. Nearly two years on, Mr Clinton is suffering from the same, sour, anti-Washington mood that produced Ross Perot and brought the president his wretched victory, with polls suggesting that the congressional mid-term elections in November will create a Republican majority in one or both houses of Congress. He has failed to deliver on the most important element of his domestic agenda: healthcare reform will certainly not pass this year, and may be doomed next as well.

Worse, the administration is mired in a foreign policy adventure, in Haiti, whose outcome is at best uncertain and at worst disastrous. With such a record, it is tempting to conclude that the presidency is already mortally wounded, and that Mr Clinton himself bears most of the blame.

Tempting, but premature. For Mr Clinton's problems, though undoubtedly daunting and certainly exacerbated by his own indecisiveness and naïveté, reflect more than the failings of one man. They testify to the uncertain state of the nation he governs - anxious about its perceived social and economic ills, despite a robust economic recovery, divided about how to cure those ailments, undecided about its place in the world.

## Forgotten successes

The collapse of healthcare reform is not only a failure by Mr - or Mrs - Clinton: it reflects a paralysis of the US's entire body politic, which when asked to tackle the biggest issues seizes up or succumbs to a multitude of high-sounding interest groups. Mr Clinton scored some notable and

easily forgotten successes in his administration's first year: on the budget and on north American free trade. But now - on crime, on trade, even on badly needed reform of America's outmoded telecommunications regime - Congress seems to experience the greatest difficulty in passing coherent or constructive laws.

Likewise in foreign policy. Mr Clinton may be having trouble formulating a clear view of his country's international role, or in consistently applying principles once formulated, or in showing resolve under pressure. But in all this he is not alone. At a time when the US has emerged as the world's only superpower and is being asked by the rest of the world to take on commensurate responsibilities, Americans are probably more divided about whether, and how, to do so than at any time since world war two.

## Simplistic postures

In the face of a public turning increasingly towards isolationism, Mr Clinton has on occasion shown admirable willingness to plead the cause of international engagement, notably in persevering with the Uruguay round of multilateral trade negotiations. But his ability to pursue a consistent or coherent foreign policy remains strictly circumscribed: by the simplistic postures often struck in Congress on such issues as Bosnia; by his own need to shore up his position among such domestic constituencies as Irish Americans and Cuban exiles; by his past insistence on giving precedence to domestic over international issues. It is not at all clear that any of Mr Clinton's often vicious assailants would fare better in similar political circumstances.

The truth is that the post-cold-war world presents challenges of a similar order to those that broke Woodrow Wilson and undermined Franklin D. Roosevelt's greatness. Mr Clinton is more a Wilson than a Roosevelt, and his country's mood more akin to 1919 than 1945. America's allies should resist the temptation to gloat or to wring their hands. Instead, they should concentrate on damage limitation - seeking to engage America in multilateral forums and actions wherever possible, and doing nothing that might turn the country further in on itself.

## Casting a smaller net

While the authorities continue to ponder a death sentence, the Net Book Agreement is dying of its own accord. Opponents of the 37-year old pact will applaud Hodder Headline's announced withdrawal from the NBA. But defenders should also welcome the news: the more voluntary the agreement appears to be, the weaker the case for abolishing it.

Pricing agreements of some kind or another have been a part of the UK book trade for nearly 100 years. Minimum price-setting by manufacturers was banned in other industries in 1956. But books, it was argued, were "different", and the Net Book Agreement survived.

Abolitionists argue that the only thing which is different about the book industry is that it is better at scaring the competition authorities into inaction. The 1986 decision has withstood repeated re-investigations. Last month, Sir Bryan Carsberg, the director-general of fair trading, ushered in another one, deciding to refer the agreement to the Restrictive Practices Court. The NBA's detractors will be hoping that this time will be different. Yet the argument for banning it has never been entirely clear-cut.

First, and most important, it is voluntary: publishers signing it are free to apply minimum ("net") prices to some, any or all of their books, as they see fit. Second, it does not necessarily impede competition: indeed, the object of the exercise is to keep as many book retailers in the market as possible.

Why, after all, would any self-respecting manufacturer want to stop retailers from cutting the price of their product? Once goods have been sold to the retailer, the producer generally has an interest in the volume of sales, not the price the retailer charges. Companies claiming that their industries are different are generally up to no good.

## Silent intimidation

But the fact that publishers have long freely opted to pursue a policy which would lose them money in most other businesses has always been a good reason to give the "difference" claim a little more weight.

Opponents, however, have always countered that the agree-

ment is not really voluntary, and it is not really in the industry's self-interest. Some publishers are allergic to change, and their silent intimidation of newer members means that the industry is trapped in the past. They would rather hold on to a restrictive practice than be forced to think of other, potentially more lucrative ways of doing business.

As long as publishers feared publishing non-net books, the case for abolishing the NBA was a restrictive practice was a reasonable one. But over the past few years, a growing number of publishers, large and small, has decided to stop netting their books, or to do so only selectively.

## Guaranteed margins

Hodder Headline, which controls around 10 per cent of the most important trade-book market, is one of the biggest players to have discarded the practice. Smaller companies who may have feared leaving may be encouraged by their decision.

But so should the NBA's remaining supporters. As long as the decision to net is solely a business judgment by publishers, and not collusive price-rigging exercise, they should be allowed to make decision by themselves. The number of shops is important to the sales of books, as is the standard of service and choice offered in each bookshop. This may have led publishers to protect small retailers in the past by using guaranteed margins: they should be allowed to opt for this in future.

But there may be other ways to protect small bookshops. Hodder Headline claims it has no desire to see small retailers go to the ropes as a result of its decision. It will merely adopt other means of subsidising them, through special discounts instead.

This may prove a more efficient, and more profitable way of recognising that books are different. But small bookshops are facing tough competition from larger outlets, with or without the NBA. The world is changing: possibly, the UK book trade has resisted change too long. Slowly, change is taking place. It would be better for all concerned if, as seems likely, the NBA withered away without being heavily-handedly uprooted by the Restrictive Practices Court.

A new business class is emerging in Russia, rapidly and from nowhere. But its unfamiliarity, and a lack of information, have led to a distorted image of the Russian businessman in the public mind.

Since 1992, a group of sociologists at the Centre for Political Technology in Moscow has been studying the backgrounds and attitudes of these Russian entrepreneurs. Their findings, drawn from interviews with the leaders of 80 big and 50 medium-sized and small businesses and in directors of state enterprises, do much to dispel the myths about the new business class.

These businessmen have come from a variety of backgrounds: some worked in the black economy during the period of "stagnation" (under Leonid Brezhnev); some are from the old *nomenklatura*, those appointed to top jobs in the communist period; some are reappointed "red directors", the former factory bosses; and some are "new Russians", entering business for the first time.

The new Russians seem to be the dominant element in this rising class. The overwhelming majority of entrepreneurs are men aged between 30 and 40, with a reasonable education.

Of those surveyed, more than 80 per cent had completed higher education. Many are graduates of the most elite institutes in the country, some with two degrees, some having held posts as scholars. The majority are second-generation intelligentsia (that is, their fathers also had higher education).

The belief that the new business leaders are mainly from national minorities - such as Jews, Armenians and Georgians - is not borne out by the survey, or any other research. Figures show that 84 per cent of small and medium-sized business leaders are ethnic Russians, which is slightly higher than their representation in the population of Russia.

However, in big businesses, only 63 per cent of business leaders are ethnic Russians, with a higher-than-average proportion of Jewish business leaders. Before perestroika, business was the only area in which Jews could get ahead.

There was no evidence in the survey that non-Russian entrepreneurs were founding business classes composed solely of their ethnic kin - their hiring practices were based on merit.

Findings such as these are at odds with the views about Russia's business class which are widely held by the public. But the survey also shows the extent to which successful Russian businessmen owe little to the past.

A few of those surveyed said they had taken part in the "shadow"

economy - trading in foreign jeans during their student days, for example. But the majority said they had never been part of the black economy.

Nor were many of the successful business leaders from the former communist *nomenklatura* of state factory bosses, secret police and second-level bureaucrats. Many of these ex-officials moved into business, often privatising state property into their own hands - a practice known as "grabatisation".

However while the practice was widespread, it has not created successful business leaders. The former *nomenklatura* survive only in regional or sectoral pockets of economic activity.

They have not succeeded in becoming a powerful and cohesive economic group, having entered the market independently of one another, often in competing or conflicting activities. The survey found just a couple of clear examples of grabatisation: the business leaders surveyed.

The idea that former "red directors" have been the driving force behind the market also appears ill-founded. There are almost no former factory directors among the country's well-known entrepreneurs. Indeed, the survey results suggested that experience has made these men too conservative to succeed in business.

Their average age is significantly higher than that of the entrepreneurs, more of them come from workers' families; they have often graduated from technical colleges, while the entrepreneurs have received a higher and more broadly based education.

The professional experience of the former "red directors" is more limited: they have usually worked all of their lives in one plant, rising from the ranks of worker to that of director, or made their careers in branches of the industrial ministries.

These directors now appear disoriented. In the past, they were guided by a patriarchal philosophy, acting as guardians to their workers and as the fathers of their enterprises. The power of a director depended on the number of workers - or "sons" - in his enterprise.

## Russian bear's new clothes

Igor Bunin on a survey which dispels many of the myths about the country's new business class



Many of these directors now understand the need to cut the workforce to raise productivity, but in practice they find this hard to do.

Instead, they continue to hope for cheap credits from the state or rack up large mutual debts with other enterprises. These people are unlikely to be creators of financial or industrial empires; they can at best fulfil their traditional role of worker-managers.

In setting up businesses since 1987, the leaders surveyed fell into two types. The first type of entrepreneur was created to supply the party or state, and was given first

call on resources such as land and funds. The second type began with nothing, compensating in large part for his lack of resources with new ideas.

The borders between state-sponsored and independent businesses are fuzzy. A number of the new enterprises, especially the medium-sized ones, steer clear of involvement with the state machine. But the development of powerful financial and industrial empires is impossible unless close relationships are formed with the state.

Many of the entrepreneurs surveyed had acquired state assets on

the cheap (for instance, by buying shares in former state enterprises very cheaply from workers), or even stole them during the haphazard break-up and sale of state property.

Indeed, an entire philosophy seems to have been created to justify this type of activity. Respondents explained to interviewers that they were the only people capable of breathing life into dead state assets.

Businessmen have also managed to invest illegally-acquired capital, often former party funds, in the developing market. However, the centre's research suggests that the role of laundered capital has been greatly overstated.

Bribery is, however, a common practice among the new business class. Some 70 per cent of respondents in the state sector and 76 per cent in the private sector reported that bribery was habitual, in which they were quite ready to take part. Many pointed to the difficulty of running a business on any other basis in a market still dominated by a state with a strong tradition of bureaucratic corruption.

The rules for doing business remain ill-defined. However, entrepreneurs seem to realise that it is impossible to work in a permanent state of disorder and lack of trust. There is a standard of morality springing up between business partners, which, by Russian standards, is high.

The new class is also developing its own value system - abandoning the traditional Soviet notions of state tutelage in favour of the principles of individualism and equality of opportunity. The new entrepreneurs see life as a contest in which the strongest and the wisest win - they wholly reject the idea of social equality, believing instead in the creative qualities of each human being.

And gradually, society appears to be accepting both the new rich and their values. Between 15 per cent and 20 per cent of the population believe that only entrepreneurs can save Russia, according to polls by the Russian Centre for the Study of Public Opinion.

However, entrepreneurs are still more likely to be viewed favourably by those who have gained most from the new economic conditions. The majority of Russians of a high social status said entrepreneurs were useful to Russia, while those of a low social status believed they were damaging the country.

Overall, there remains some distance to go before the market is widely accepted as the main organising principle of the emerging society.

Igor Bunin is Director of the Centre for Political Technology.

## A world of minimal job security



PERSONAL VIEW

Pundits are often asked whether the UK economy really can be recovering since most people still seem so miserable. Perhaps the explanation is that, despite the excellent performance of the economy as a whole, individuals are quite right to be uneasy. The behaviour of the economy, and especially of the labour market, is changing. No-one can feel altogether secure, even if we do see years and years of steady growth with low inflation, as the prime minister would have us believe.

Competition is hotting up, between countries, between companies and also between individuals in the labour market. The process has been a very gradual one, but it has been going in the same general direction now for more than a decade.

The experience of the last recession and the present recovery suggests that it is gathering pace. Perhaps we should try to imagine where it might lead, to imagine a

world in which job security was reduced to a minimum.

From the employer's point of view there would be obvious advantages. Companies could expand or contract rapidly, adjusting the size of their labour force more or less continuously. They could change the composition of the labour force as well if they decided to change the mix of products or the techniques of production. Sometimes they might decide to hire the same individuals for several years in succession, because they knew that they had skills for which the firm had a continuing need, but they would be under no obligation to do so. Their situation would, in a word, be "flexible".

From the employee's point of view the situation does not seem so comfortable. It would pay to keep one's options open and stay in touch all the time with the external labour market. It would pay to accumulate some reserves of savings to see one through the inevitable gaps between jobs.

On the other hand those gaps might not be quite so long if companies were actively recruiting in the

labour market all the time, and were prepared to replace their existing workforce if the opportunity arose. It might, indeed, not be so very different from being self-employed, especially for those who decided to spread their risks by taking on several part-time jobs instead of a full-time one.

Things have not gone this far, of

course, and perhaps they never will. But the direction of movement is clear enough and its implications are profound. Not only economics is involved: for many people the company or organisation they work for is the main focus of their loyalty and aspirations, as well as the centre of their social life.

What will replace that focus for those who change their jobs every year or so? How will this fit in with

family life or life in a local community? These, perhaps, are the really big questions, but there are some quite large economic questions to ask as well.

If the labour market is to work efficiently with frequent job changes then more resources will be needed to secure a good match between supply and demand. There will be a greater need for "market-makers", including independent careers advisers, employment agencies and so on. This is a social cost to set against the efficiency gains which may result from the flexibility of employment from which firms will benefit.

The cost of supporting those "between jobs" will fall in large part on the social security system. Most of the unemployment will, hopefully, be short-term, but there could also be an increase in longer-term unemployment and in the numbers dependent on other forms of benefit, especially as those who lose their jobs are likely to be those with few skills or with skills that are no longer marketable.

There are, indeed, especially

important questions about the training and retraining of the labour force. If employees come and go so readily, companies will have little or no incentive to pay for their training.

Individuals will have to plan and finance their own acquisition of skills with an eye to future jobs as well as their present one. And pay differentials for skills will have to widen sufficiently for that investment to be worthwhile.

It is no wonder, then, that people seem anxious even as the economy recovers. We are in a transition and no one knows how far it will go. It is a direction of change which the government has encouraged and applauded, but it is not under its control.

Those who lose in the process will tend to blame the government, while those who benefit will take the credit for themselves.

Andrew Britton

The author is director of the National Institute of Economic and Social Research

## OBSERVER



"I'm popping out for a paper to see if Michael Howard's resigned"

Colin Haycraft, who died at the weekend at the age of 65.

He was chairman and managing director of Duckworths, one of the last independent publishers. In 1992 he faced an attempt to oust him. Haycraft - who paid himself £25,000 a year - simply remortgaged his house, bought shares to regain control and kicked out those who had tried to do the same to him.

A classical scholar, one of Haycraft's obsessions was to see the publication of a full edition of Edward Gibbon's *The Decline and Fall of the Roman Empire*, characteristically, he denounced another publisher, Everyman, for producing a three-volume version

with 11 chapters omitted. "The blurb on the (Everyman) slipcase gives no hint that the edition is not complete, and as the three volumes inside are shrink-wrapped, in their special conditions, we don't realise until we get home," was the view of one of the last gentleman publishers.

## Frying tonight

■ Calling all under-employed Eurocrats - if that isn't something of a tautology. Get to work on rescuing Belgium's national snack, chips doused in mayonnaise. A potato shortage, caused partly by the hot summer, partly by farmers planting fewer spuds last season as a result of low prices, is threatening to extinguish the Belgian chips'n mayonnaise snack, or at least convert it into something of a luxury.

An opportunity here for Britain's Potato Marketing Board to justify its temporary reprieve and lend its support to the vanishing Belgian *pomme frite*?

## Free press

■ *Libération*, the fashionable French daily, is finding it hard to free itself from the perils of technology. While the newspaper's staff celebrated until the early hours of the morning in front of an Eiffel Tower draped with a giant copy of the front page of the

re-designed paper, the company's Paris printing presses broke down for the second time in 21 years.

The result was that the new-look paper did not hit the streets until yesterday afternoon. The finger was pointed at a glitch in the computer link from the editorial centre rather than a bolshy printer who had not been invited to the Eiffel Tower party.

## Pond life

■ Not so much life imitating art, more a case of life mocking artefacts. Michael Jack will be the first British government minister to use the Channel tunnel for business purposes when he travels to Brussels today for a European council meeting. The Channel is now leaking, thanks to drainage problems. Jack, of course, is minister for fisheries.

## A rash move?

■ So Philip Jarrold, 44, managing director of Peaufodou, the nappy manufacturer, is moving to head Ladbroke's Vernons pools division. This should give backs in the trade press a chance to test their headline writing skills. How about "Forty-four and finally out of nappies", or "Jarrold arrives at Vernons with reputation unsullied". Observer's suggestion is "From the bottom to the top" but a real pro could do much better.

## A bronze for Nipper?

■ So what do Thorn EMI chairman Sir Colin Southgate, Richard Budge, boss of BUP Mining, and British Embassy ambassador Raza Saleh Al Gurg and Morgan Stanley's Steven Ward have in common?

Nothing much that they knew of until they arrived at Le Manoir Aux Quat' Saisons outside Oxford last Saturday as guests of its chef and proprietor Raymond Blanc. The occasion was a celebration of the work of a husband and wife team of sculptors, Lloyd Le Blanc and Judith Holmes Drewry. Most of the 90-odd worthies who turned up seemed unaware that their "discovery" was so widely shared.

The two - she does figures and he does wildlife - dispense with a London gallery, instead wooing prospective clients to their Leicestershire studios. Several guests had bronzes of their family in the garden, while others preferred animals such as yearling calves. Indeed, with HMV celebrating its 75th anniversary in 1996, a bronze Nipper may soon be listening intently to His Master's Voice in Southgate's office.

## Token tip

■ How nice of Hodder Headline to cut the price of its hardbacks by pulling out of the net book

## Classical spine

■ And as young, marketing-minded Nelly Hutchinson was stirring up the book trade, the industry lost one of the last remaining old guard,



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# FINANCIAL TIMES

Tuesday September 27 1994

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## America learns to cope without daily dose of OJ

Drama switches off until jurors chosen, reports Jurek Martin

There were no live television pictures from a Los Angeles courtroom yesterday as America's murder trial of the year got under way.

How the country will survive without its daily televised fix of the trial of O.J. Simpson, the retired gridiron football star accused of the murder of his former wife, Nicole Brown Simpson, and her friend, Ronald Goldman, is doubtful. The cameras did not roll yesterday because Judge Lance Ito of the Superior Court of California began questioning as many as 1,000 prospective jurors, from whom a panel of 12, with eight alternates, must be chosen. This process is held in camera, as it were.

Judge Ito must first ascertain which jurors cannot, for business or personal reasons, take three months off, especially if the jury is sequestered.

This could reduce the 1,000-name list by three-quarters and it is over these that the lawyers will do serious battle.

Defence and prosecution lawyers have submitted briefs to Judge Ito running to countless pages, outlining the questions they would like to see satisfactorily answered.

Since no prospective juror living in this country can claim ignorance of the case, selection criteria include sex, race, age, known attitudes and personal history.

For 3½ months, each preliminary and pre-trial session has been televised live. Lawyers, psychologists, DNA scientists and experts in race relations (Mr Simpson is black, his wife and Mr Goldman were white) have all had their disparate views given full airing. A Los Angeles Times poll yesterday of residents of Los Angeles County, from which the jury pool is formed, found 34 per cent believing him guilty and 16 per cent innocent, with the balance undecided. As with other surveys, far more blacks than whites thought him not guilty and a victim of racial prejudice. Women were also conspicuously more sympathetic to Mr Simpson than men.

It may take up to a month for a jury to be empanelled. Even then, there is no guarantee that the trial itself may be covered live. Last week, Judge Ito, enraged about press leaks and stories of little apparent substance, said he would consider banning some or all media coverage.

Although this is within his power, he is unlikely to take the extreme sanction. If he did, the media would doubtless go to court to demand that he be overruled. Last week a committee of judges recommended that the experiment of televising federal trials be discontinued - but this is a state case and California is the home of television.

Beyond its celebrity element - Mr Simpson, after a glittering career on the field, became one of the most visible TV pitchmen for assorted commercial products - the trial itself may prove of legal importance as a test of the usefulness and admissibility of DNA analysis.

The trial could last until Christmas and beyond. Despite mid-term elections, Haiti and Bosnia, the face of O.J. Simpson, who is pleading not guilty, will go on starting out at the nation from the small screen. Not since one Friday night in June, when national TV caught him and a friend driving his white jeep along the freeways of Los Angeles, pursued in semi-slow motion by a phalanx of police cars, has he been absent from it.

Indian health authorities were yesterday struggling to control the spread of pneumonic plague amid signs of further outbreaks following the flight of some 300,000-500,000 people from the western city of Surat.

The number of new patients admitted to hospital in Surat fell yesterday to about 40, the lowest daily figure since the outbreak started, but the disease was blamed for two deaths in villages about 40km away. There were also reports of people with plague-like symptoms in hospital in other parts of northern and western India - including Ahmedabad, Bombay and in New Delhi, 1,200km from Surat.

The outbreak has left at least 43 people dead and about 400 others desperately ill. Other countries are also monitoring the plague, including Arab states, which were yesterday holding a meeting of health officials of members of the Gulf Cooperation Council to co-ordinate a response.

The meeting followed a decision by the United Arab Emirates to carry out medical checks on all travellers arriving from India. Meanwhile, India has received offers of medicine from the World Health Organisation, Unicef, the US, Russia and elsewhere. Pneumonic plague, a variant of bubonic plague which decimated Europe in the 14th century, is spread easily by airborne infection but can be effectively treated as long as the remedy - the antibiotic tetracycline - is given early enough.

In Surat, 800 paramilitary personnel were yesterday searching the city for plague victims. They also stood guard at the main hospital to prevent patients from fleeing, following the escape at the weekend of about 100 victims, who ran away in the belief they would receive better care at home.

There is confusion about the precise number of victims because some who died early in the outbreak with plague-like symptoms have since been found to have died of other causes. Also, an unknown number of people died outside hospital and have been cremated or buried by their families.

Health officials say the origins of the outbreaks, the first in 30 years, are not clear.

## India fights to control spread of plague

By Stefan Wagstyl in New Delhi

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Health officials say the origins of the outbreaks, the first in 30 years, are not clear.

## THE LEX COLUMN

### Reckitt freshens its act

Strategically, Reckitt & Colman's \$1.55bn acquisition of Kodak's L&F household and personal care products business cannot be faulted. The group neatly side-stepped the trap of buying the subsidiary bundled with the do-it-yourself operations, as Kodak originally wanted. The deal provides the group with one of the last decent-sized US household products businesses - and one of sufficient scale to allow Reckitt to compete with the big boys in the North American market. Abandoning the emotionally-charged food business also looks wise. Although Reckitt's business commanded some useful niches, it was weak internationally and even in the UK remained too small.

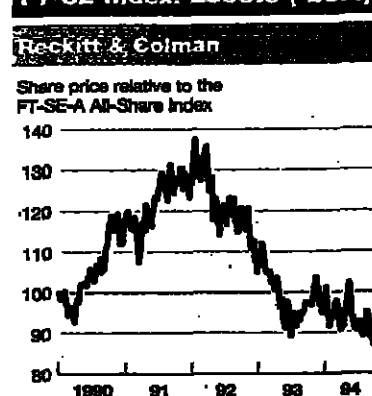
Nor can the company be criticised for over-paying. A price of twice sales and 13 times earnings is in line with similar deals. Whether L&F proves good value is another question altogether. Much depends on Reckitt's ability to achieve synergies. Its management has promised savings of \$40m during the next three years. However, the group's track record is not auspicious. The \$713m acquisition of Boyle Midway in 1990 was not a conspicuous success. In spite of three and a half years of economic growth, US sales have proved mostly pedestrian, and occasionally immobile. Reckitt's North American team may acknowledge its past mistakes, but that is no guarantee it will not repeat them.

The debt issue is less troublesome. Reckitt's cash-flow is strong, generating more than \$100m a year. Even without the \$400m disposal programme, the company can reduce debt to present levels within five years. Reckitt will not be a distressed seller, but that is just as well. Large chunks of the UK food industry are on the block, but there has not been a noticeable rush of buyers. The predicted exit multiple of one times sales may eventually look justifiably conservative. Given the shares' underperformance over the past three years, though, the rights issue is thankfully small.

#### Bass

No one expected Bass to report much of an increase in its beer margins in yesterday's trading statement. But the 3 per cent fall in its shares, even in a weak market, suggests limited faith in the strategy now emerging to secure future earnings growth. Having effectively abandoned its dash for volume growth in beer, Bass is turning to brand management and

FT-SE Index: 2999.8 (-28.4)



Source: FT Graphs

sions helped make up the slack, demonstrating the resilience inherent in the group's spread of activities.

Yet some of the shine was taken off the figures because of management caution about the outlook for the full year. Stocks, particularly of cars, are also up sharply, highlighting an underlying weakness in Inchcape's bargaining position with the manufacturers which supply it. Though the fall in motor trade margins from 3.5 to 2.9 per cent largely reflects currency movements, Inchcape is unlikely to recoup the slippage easily even when currency pressures subside. The priority of its suppliers will be to improve their own margins as soon as market conditions permit. Inchcape's position as a distributor thus leaves it vulnerable to a squeeze which will limit the cyclical upturn in its profits.

#### Gold

Judging by gold's unruffled reaction to Mr Kenneth Clarke's IMF sales proposal, the market does not yet believe it will happen. The UK chancellor will clearly have his work cut out persuading Mr Michel Camdessus, the IMF's managing director, to part with gold holdings in order to assist heavily indebted poor countries. Even if he succeeds, it will be a year or more before any sales actually occur. The phased sales programme which might then be introduced would probably be smaller than the large disposals undertaken by the IMF in the 1970s. With luck, IMF sales might coincide with an end to Canada's official sales programme, so the market might scarcely notice the increased supply.

Even so, the fact that IMF gold sales are on the discussion agenda must damp enthusiasm. Buoyed by indications of rising inflation in the US, gold had been pushing towards the \$400 level. Underlying demand in China and India has recovered after a lull and the incipient economic recovery in Europe seems likely to push up jewellery fabrication demand in Italy.

Before Mr Clarke's announcement, the danger was that the market might run up on speculative buying, only to succumb to profit-taking as call options were cashed in at prices above \$400. If the rise now becomes more gradual, higher prices will be more sustainable. It would also help calm bond market concern about the inflationary implications of a sudden spike in the gold price, and surely please leading central banks as well.

#### Inchcape

Yesterday's interim results from Inchcape were on the face of it encouraging. The impact of the strong yen on its European motor distribution business was bad - operating profits dropped £20m as a result - but not as bad as analysts had predicted. Moreover, strong results from other divi-

## Japan makes final attempt to avoid US trade sanctions

By William Dawkins in Tokyo

Japan will make a last-ditch attempt to resolve the deadlock in trade negotiations with the US today when Mr Ryutaro Hashimoto, international trade and industry minister, flies to Washington for talks aimed at avoiding sanctions.

The move coincides with a warning from Mr Walter Mondale, US ambassador to Japan, that US law obliges it to impose economic sanctions if there is no accord by the Friday deadline.

"It's not something we'd want to do, but it would be something we would be compelled to do under the law," Mr Mondale said. Mr Hashimoto will meet Mr Mickey Kantor, US trade representative, and plans to return in time for the opening of the next parliamentary session on Friday. He takes the baton from Mr

Yoshi Kono, the foreign minister, who had to break off talks with US officials to prepare for a United Nations speech today.

There were signs of progress in talks on foreign access to Japan's public procurement of telecommunications and medical equipment, and on the insurance market, Mr Mondale said. Agreement on these would be "the key to a more positive tone in the whole trade matter", he said.

Access to Japan's car and car parts market, representing nearly 60 per cent of its trade surplus with the US, and access to the market for flat glass, where the economic stakes are small but symbolic, are the other outstanding matters.

Cars - the main subject of Mr Hashimoto's mission - were "not quite ripe" for an accord and the outlook for a deal on glass was unclear, Mr Mondale said.

The US ambassador could give no indication whether Washington might postpone the sanctions deadline - as it did in a row over the Japanese construction market last year - if there was an accord on public procurement or insurance.

"I don't know if we will accept a partial package... but if we can't, the provisions of our law will take place," he said in reference to the US Trade Act. Under this, sanctions would be announced in the event of failure to agree on public procurement on Friday, to apply after a 30-day comment period, on October 30. Mr Mondale said the latest negotiations were more productive than in February, when the US and Japan broke off trade talks after a summit between US President Bill Clinton and former prime minister Morihiro Hosokawa ended in impasse.

## US lifts Haiti sanctions

Continued from Page 1

strangulation" by Bosnian Serbs and that the UN would have to show a "new resolve" to enforce resolutions to protect the city.

"UN actions in Bosnia, as those in Haiti, demonstrate that progress can be made when a coalition backs up diplomacy with military power."

He also announced US support for a new multilateral agreement

to control the sale and use of anti-personnel landmines, and called for the eventual elimination of the 55m such weapons which are now believed to be scattered in 82 countries.

The US will propose that countries reduce the proportion of landmines in their stockpiles that do not self-destruct or deactivate themselves, and ban exports of mines to countries which have not signed the convention on conventional weapons.

## Reckitt buys L&F Household

Continued from Page 1

businesses and £400m of cash-flow.

"The rapid pay-down of debt will allow us to continue to support rapid development of our businesses," Mr Sankey said.

Sir Michael said likely buyers for Colman's and the other UK activities were companies with a strong European food business but keen to increase their UK presence. Although the group

would sell the Colman's mustard trade name, it would probably retain the name in the group's title.

The price for L&F, at about twice its sales and 20 times pre-tax profits, broadly matched expectations. But until Reckitt has shown it can exploit the purchase, it is unlikely to change City perceptions that - in the words of one analyst - it is a "slightly stodgy, conservative company in boring products".

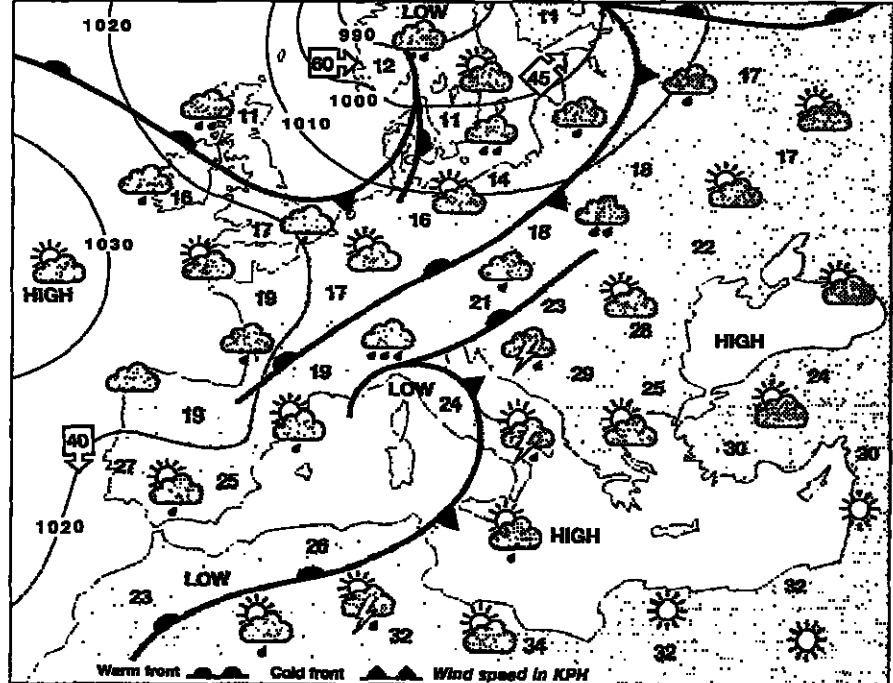
## FT WEATHER GUIDE

### Europe today

Low pressure west of Norway will make Scandinavia unsettled. Heavy rain will affect central and northern areas and the west coast, which will also experience stormy westerly winds. A secondary low will cause rain over Scotland which will spread south to the Midlands and the Benelux during the afternoon. Cool north-westerlies will affect most of western Europe. France will be mainly dry with areas of persistent fog. Extensive rain in south-east France will move towards northern Italy during the day. North-east Europe will continue changeable and rather cool but the eastern Mediterranean will stay hot, sunny and dry.

### Five-day forecast

Western Europe will become cooler. Most areas will be mainly dry and settled with some persistent fog. Heavy rain will cross the British Isles on Wednesday, reaching the Benelux on Thursday. Scandinavia will continue unsettled, although southern areas will have sunny periods by the end of the week. Spain and the western Mediterranean will have seasonable temperatures and showers.



### TODAY'S TEMPERATURES

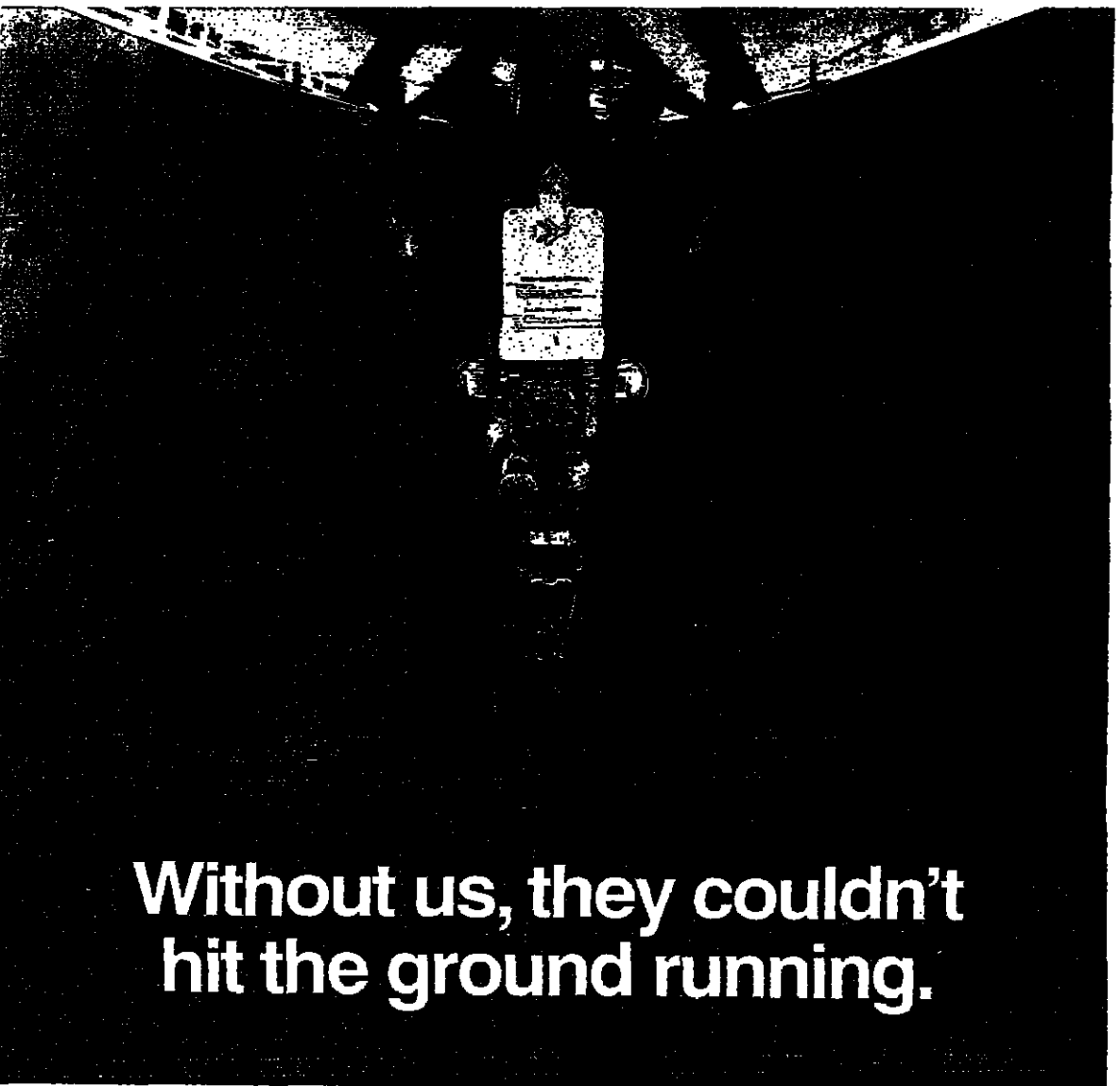
Maximum	Beijing	fair	24	Caracas	showers	31	Faro	fair	24	Madrid	fair	23	Rangoon	fair	30
Minimum	Celala	showers	15	Cardiff	cloudy	19	Frankfurt	cloudy	20	Moscow	fair	25	Raykavik	cloudy	26
Abu Dhabi	sun	37	Belgrade	fair	30	Chicago	cloudy	22	Geneva	cloudy	20	Rio	showers	23	
Accra	sun	30	Berlin	cloudy	17	Casablanca	cloudy	16	Gibraltar	cloudy	22	Manchester	showers	18	
Algiers	fair	26	Bermuda	cloudy	30	Cologne	cloudy	18	Glasgow	rain	14	Malta	showers	26	
Amsterdam	cloudy	15	Bogota	drizzle	22	Dallas	fair	28	Hamburg	cloudy	14	Melbourne	fair	13	
Athens	sun	29	Bombay	sun	32	Dubai	sun	33	Helsinki	sun	12	Mexico City	thund	32	
Atlanta	sun	25	Brussels	fog	16	Delhi	sun	33	Hong Kong	showers	20	Miami	rain	23	
B. Aires	sun	21	Budapest	thund	24	Dubai	sun	37	Istanbul	fair	17	Montreal	rain	17	
Bham	cloudy	16	Cheng	sun	32	Dubrovnik	fair	17	Jakarta	thund	32	Moscow	showers	17	
Bangkok	showers	31	Cairo	sun	32	Dubrovnik	fair	17	Jersey	fair	14	Mumbai	showers	21	
Barcelona	sun	23	Cape Town	showers	18	Edinburgh	showers	15	Karachi	sun	33	Nairobi	sun	27	
									Kuwait	sun	27	Naples	sun	28	
									L. Angeles	sun	27	Nassau	fair	32	
									Las Palmas	fair	28	New York	showers	21	
									Lima	fair	20	Nice	rain	23	
									Lisbon	sun	25	Nicosia	cloudy	13	
									London	cloudy	17	Oslo	cloudy	13	
									Luxembourg	cloudy	17	Paris	cloudy	13	
									Lyon	cloudy	21	Perth	cloudy	29	
									Madrid	fair	23	Prague	cloudy	18	

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## The best cities to

Rank	City	Score
1	London	100
2	New York	95
3	Paris	90
4	Los Angeles	85
5	Madrid	80
6	Barcelona	75
7	Amsterdam	70
8	Brussels	65
9	Frankfurt	60
10	Geneva	55
11	Stockholm	50
12	Oslo	45
13	Copenhagen	40
14	Helsinki	35
15	Toronto	30
16	Vancouver	25
17	San Francisco	20
18	Seattle	15
19	Portland	10
20	San Jose	5



**IN BRIEF**

**La Générale improves 53%**

Société Générale de Belgique, the diversified Belgian holding company, increased its net earnings by 53 per cent in the first half of the year to FF6.7bn (\$210m) compared with FF4.4bn in the previous corresponding period. Page 18

**IMF wants tougher hedge fund rules**  
Stronger requirements for hedge funds and other investors to disclose large trades in government bonds could help prevent manipulation of smaller markets, according to a study by the International Monetary Fund. Page 18

**Air France asked to sell Sabena stake**  
Sabena is seeking to pressure Air France into reducing or selling its minority stake in the Belgian state-owned carrier to enable the formation of partnerships with other interested airlines. Air France said, however, that it did not intend to sell. Page 20

**Chevron upbeat on Tengiz project**  
Chevron, the US oil company, says it had no plans to pull out of its \$20bn Tengiz oil project in Kazakhstan. Page 20

**Tokyo to allow derivatives trade**  
Japan yesterday took a small step on its long road to financial deregulation by permitting banks to trade in two forms of financial derivatives - forward rate agreements and forward exchange agreements. Page 21

**Mining groups strike venture deal**  
Normandy Possidon, the Australian gold producer, and Bureau de Recherches Géologiques et Minières, the French government-controlled mining group, are to form one of the world's most diverse resource ventures through transactions involving almost A\$740m (US\$544m). Page 21

**Inchcape warns on Japanese car sales**  
Inchcape, the international motors, marketing and services group, yesterday confirmed that the strength of the yen had hit sales of Japanese cars in Europe, but said all the rest of its operations were performing well. Page 23

**Bass shares slip after statement**  
Shares in Bass slipped 17p to 520p yesterday after it delivered a cautious trading statement which indicated its breweries and pubs remained under intense competitive pressure. Page 23

**£100m interest gloom for Brent Walker**  
Interest payments of more than £100m (£158m) overshadowed an improvement in interim operating profits at Brent Walker, the bookmaking and public house group laden with £1.4bn of bank debt. Page 24

**Hammerson rises to £24.5m**  
Hammerson, the property company which came under new management last year, yesterday reported interim pre-tax profits of £24.5m (£38.7), against £15.2m, and signalled its intention to expand in continental Europe. Page 25

**Stora to raise newspaper prices 20%**  
Stora, Europe's biggest pulp and paper group, will raise prices of newspaper by 20 per cent next year following increases in pulp prices and a recovery in European paper demand. Page 26

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**Chief price changes yesterday**

FRANKFURT (DM)		PARIS (FF)	
Alcatel	1000 + 10	Alcatel	488 + 17
Alcatel		Alcatel	745 + 22
Alcatel	825 - 12	Alcatel	
Alcatel	716 - 19	Alcatel	827 - 18
Alcatel	692 - 14	Alcatel	871 - 13
Alcatel	133.2 - 15.6	Alcatel	644 - 18
NEW YORK (US)		TOKYO (Yen)	
Alcatel	344 + 1	Alcatel	1350 + 20
Alcatel	394 + 4	Alcatel	1980 + 40
Alcatel	594 + 1	Alcatel	880 + 20
Alcatel	36 - 14	Alcatel	483 - 12
Alcatel	674 - 44	Alcatel	760 - 20
Alcatel	614 - 14	Alcatel	7730 - 110

New York prices at 12.30

LONDON (Pence)			
Alcatel		Danlen Hags	1400 - 60
First Choice	126 + 7	Dynalyn Dr	122 - 10
Pyrites	108 + 6	Elkon	335 - 35
Golden Hair	438 + 15	Exorated Lins	250 - 19
Alcatel	53 - 7	Fairfax Bases	425 - 20
Alcatel	173 + 8	Hazell Whiting	220 - 20
Wills Leisure	59 + 3	JA Higgs	138 - 7
Plancia Energy	237 + 20	Klearkat	124 - 16
Alcatel		Marston Electronics	755 - 35
Alcatel		Phosin Ltd	216 - 9
Alcatel		Reckitt Coleman	565 - 43
Alcatel		Upstart	341 - 12

**Peugeot Citroën gains with bigger range**

By John Ridding in Paris

Peugeot Citroën yesterday provided evidence of the French car industry recovery while announcing the strengthening of its product range and net profits of FF988m (\$313m) for the first half of the year, compared with a loss of FF1.12bn in the same period in 1993.

The results were at the lower end of analysts' forecasts, but Peugeot Citroën predicted further improvement and a "clear posi-

tive result" for the full year. It said the improvement would be partly based on the impact of its revamped model range which would offset a slowdown in growth in the automobile market in the second half of the year.

According to Peugeot Citroën, the slowdown partly reflects the weakening of stimulatory measures introduced by the French government. The measures, which were introduced in February and included a payment of FF5,000 to car owners who

traded in vehicles more than 10 years old to buy a new one, helped lift sales in the first half. Combined with an end to recession in France and other European markets, the measures had prompted a 14.8 per cent increase in sales to FF783.8bn.

Peugeot Citroën said its improvement reflected the impact of new models, from utility vehicles to the estate version of the Citroën ZX and the Peugeot 306 convertible. In addition, the first half of the year saw the

launch of the group's multi-purpose vehicles, the Peugeot 806 and Citroën Evasion.

The progress in the first half enabled the automobile group to raise its share of the western European market from about 11.9 per cent to 12.5 per cent. In France, market share increased from an average of 30.3 per cent in the first half of 1993 to about 32.8 per cent.

Improved cash flow and a tighter control on investments allowed the company to reduce

debts. At the end of June, group debts stood at FF8.34bn, compared with FF16.87bn at the beginning of the year. At the operating level, Peugeot Citroën reported a profit of FF2.45bn, compared with a loss of FF1.25bn last time.

Despite an upbeat assessment of the company's performance, Peugeot Citroën expressed caution about the prospects for the European market. It pointed out that although the 6.8bn new registrations in the first half repre-

sented a growth rate of 6.7 per cent over the first half of 1993, the total volume still represented a fall of almost 12 per cent compared with the first half of 1992.

The outlook for the current period was also cautious, saying "growth in western European automobile demand should be much slower in the second half". As a result, it said, growth in passenger car registrations for the full year is likely to cool to around 4 per cent in western Europe and 12 per cent in France.

**Roderick Oram explains why Reckitt & Colman is spending \$1.5bn to build its US household products portfolio**

**Cleaning up its act to fight the giants**

Mustard, barbecue sauce and potatoes were all Reckitt & Colman was selling in the US 10 years ago. Two acquisitions turned it into a provider of cleaners and other household products, making the US the British group's largest single market. But it remained a second-tier company lacking some key products in a field dominated by leading brands.

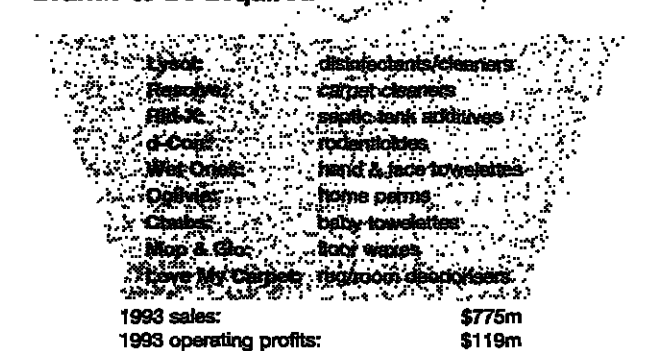
Reckitt's ambition, though, is to compete with the likes of Colgate-Palmolive and Procter & Gamble on their US home ground, by far the largest market in the world, and abroad. Yesterday's \$1.55bn purchase of L&F Household from Eastman Kodak gives it the weapons to take them on. It may also hasten the day when Reckitt concentrates entirely on household products by selling its over-the-counter drugs including such famous brands as Disprin, an aspirin-based painkiller.

L&F "fits our strategy perfectly," said Mr Vernon Sankey, chief executive. "It transforms the position and profitability of our US business." According to Mr Paul Woodhouse, a Smith New Court analyst, "Reckitt was in need of something to get it moving. It was in the second division with few products mass marketers needed."

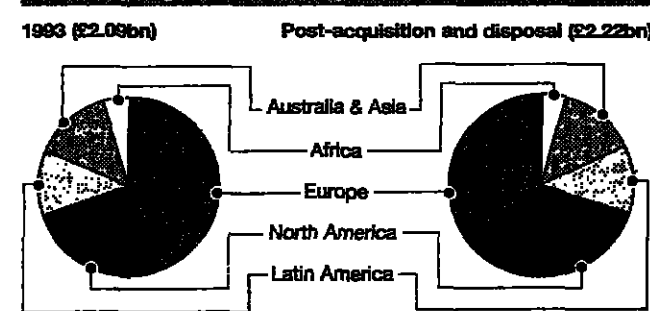
But L&F also presents Reckitt with some stiff challenges. The biggest is to assimilate L&F and use its brands and technology to good effect abroad. Reckitt has a rather patchy record on these management techniques. It has yet to maximise the potential, for example, of its \$1.25bn purchase in 1990 of Boyle Midway, another US household products group.

**Lysol - but that's not all**

**Brands to be acquired**



**Sales by region...**



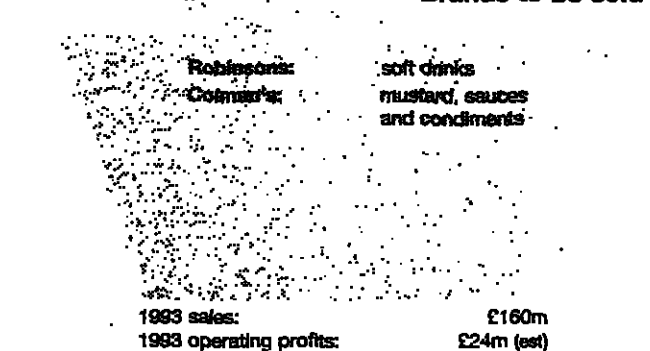
The group has found it hard to increase US sales and profits in recent years. Founded in 1874 by Mr Lane and Mr Fink as an importer of raw materials for New York City pharmacists, L&F became one of the first suppliers of antiseptics. From that technology grew a range of disinfectants and other household products. It was taken over by Sterling Drug in 1968 which in turn was bought by Kodak in 1988.

Its products are tightly focused on some six brands such as Lysol which are first or second in their markets. It has products such as laundry cleaners which Reckitt lacks in the US. It has disinfectant technology that Reckitt hopes to use elsewhere in the world. It is much more more

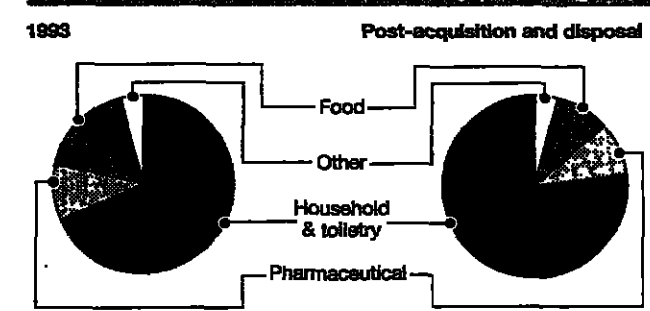
experienced in the US than its new owner at "controlling shelf space", the art of dealing with retailers. Strength in brands and distribution helped it to achieve a profit margin last year about 2 percentage points better than Reckitt's world wide average of 15 per cent.

Lysol is a leading brand with its products used in two out of three US homes. Sales of Lysol products totalled \$360m last year, about half L&F's sales, but only \$30m came from outside the US. Moreover, Lysol's annual sales growth of about 2.5 per cent in recent years has been moderate and some US analysts see it as a "tired brand". Reckitt could play to both the strengths and weaknesses of Lysol. It intends to rebuild its US business around

**Brands to be sold**



**...and by product-group**



Lysol and L&F's other main brands by selling off lesser products from the two companies. L&F's products generating less than 25 per cent of sales could be sold, Mr Sankey said.

The new US line-up, including successful existing products such as Woolite fabric washes and Easy-Off oven cleaners, will broaden the range of products Reckitt offers retailers and allow it to make better use of its marketing expenditure. Reckitt could also apply to Lysol its skill at extending the range of brands and take it into new markets.

North American sales by Reckitt after the acquisition and related disposals will be about \$775m, about 35 per cent of the group total, compared with \$553m and 26 per cent now. Once

integration is complete in 1997, the synergies will be worth some \$40m a year in operating profits in addition to the money Reckitt and L&F are currently making, Mr Sankey said.

In a world increasingly dominated by large over-the-counter drugs companies, Reckitt will be a small player. Mr Sankey said yesterday its drugs "were a very fine piece of business" both for its brands and growing penetration in south-east Asia which it intended to exploit.

But the division could be worth some \$500m to a big player, analysts suggest. A sale would give Reckitt the resources to make further acquisitions to build itself into a worldwide household products company. Lex, Page 17

**Disposals at Kodak near end**

By Tony Jackson in New York

The sale of L&F Household to Reckitt & Colman brings Eastman Kodak almost to the end of the ambitious disposal programme announced in May by Mr George Fisher, its new chairman. The deal also brings total cash raised by the programme to \$7.2bn, leaving Kodak apparently debt-free.

More important in strategic terms, it virtually completes Kodak's strategy of returning to its basic business. This the company defines as "imaging" - not only traditional photographic activities but the high-tech world of multi-media, with which Mr Fisher is familiar from his previous job as boss of the electronics firm Motorola.

The one substantial disposal remaining is the rest of L&F, consisting of DIY products such as wood finishers. Kodak is coy about the size of this business or how much it might fetch. However, a clue can be derived from the fact that when it decided to sell L&F in two parts - on the grounds that it could not reach its target price for the business as a whole - that price was rumoured to be about \$2bn.

Also to be sold are a small technology subsidiary, Nanosystems, and the research and development headquarters of Sterling, the drug company which Kodak sold to Sanofi of France earlier this year. Sanofi has agreed to lease the building from Kodak for a year.

When Mr Fisher arrived at Kodak last December, some observers were sceptical about his ability to turn around a company which seemed to have lost its way. However, the speed at which he has moved has won Wall Street's admiration.

**BT agrees partnership deal with three Nordic operators**

By Andrew Adonis in London

British Telecommunications yesterday boosted its international ambitions on the announcement of a partnership agreement with three of Scandinavia's four national telecommunications operators.

Norwegian Telecom, Telecom Finland and Tele Danmark, the Danish national operator, will work with BT to market one-stop international telecom services across Scandinavia.

The move marks a further stage in the division of the world's leading telecoms operators between three rival alliances, each bidding to become the leading supplier of international telecoms services to multinational companies.

The deal pitches BT into fierce competition with Unisource, a grouping of European telecoms operators which recently forged an alliance with AT&T, the largest US operator.

AT&T is BT's main challenger in the international arena.

Telia, the Swedish state operator, is one of Unisource's four European members. BT and its Nordic partners yesterday highlighted Sweden's business market as their principal target. They aim to exploit Sweden's open telecoms regime to offer a pan-Nordic telecoms service to multinationals in the region.

Telia already faces intense competition in its home business market. A senior executive said that France Telecom has been offering Swedish multinationals discounts of up to 30 per cent on international traffic. France Telecom belongs to a third alliance, which includes Deutsche Telekom, the German state operator.

However, Telia said that BT's Nordic alliance was "not unexpected" given a previous tie-up between BT and Norwegian Telecom. It called on Denmark and Norway to end restrictions on competition in their home

telecoms markets.

The backbone of BT's international strategy is its \$5.3bn alliance with MCI, the second-largest US long-distance operator. The two companies have established a joint venture, "Concert", to service multinationals.

BT's Scandinavian deal is far more limited and none of the three Nordic partners will take an equity stake in Concert.

Mr Hans Wurtzen, Tele Danmark's chief executive, said: "The agreement marks a new era for Nordic telecommunications, addressing customer needs on a regional and global basis."

Analysts are divided on the scope for the new alliances to develop significant revenues, given the limited number of multinationals and the savings they will demand from one-stop suppliers.

However, the alliances are set to exert downward pressure on Europe's high international phone prices.

**French bank to disclose losses**

By Andrew Jack in Paris

Credit Lyonnais, the French banking group, is expected today to unveil losses of FF4bn-5bn (\$750m-\$950m) in delayed results for the first half of 1994.

The losses are expected to be accompanied by substantial additional balance sheet provisions against worsening bad loans on activities outside its traditional lending base. The bank confirmed its board was due to meet today after which the results are scheduled to be published.

The results were due for release last Thursday, but were delayed by an apparent collapse in discussions between Credit

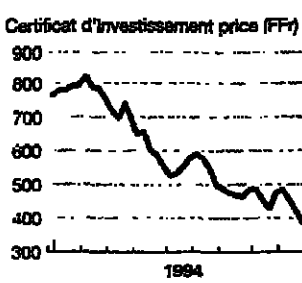
Lyonnais and the government.

Mr Edmond Alphandery, economy minister, issued a statement suggesting he had only been informed last Monday of the size of the bank's bad debts, which could require additional provisions of up to FF25bn.

Mr Alphandery stressed that the government would provide support to the bank, although the Ministry of Finance and Economy publicly rejected some speculative reports yesterday that there would be any immediate state aid of FF30bn-40bn required.

Credit Lyonnais sources suggested that the group had sufficient capital to exceed European minimum solvency require-

**Credit Lyonnais**



Source: FT Graphix

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Final dividend per share	1.8p	-

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## INTERNATIONAL COMPANIES AND FINANCE

## CarnaudMetalbox scraps plans for Wheaton deal

By John Ridding in Paris

CarnaudMetalbox, the Franco-British packaging group, yesterday announced the collapse of plans to merge its health and beauty businesses with Wheaton, the privately-owned US packaging group.

The planned merger, announced in June, would have created the world's largest beauty and healthcare packaging concern with annual sales of FF9bn (\$940m). It failed because of difficulties which arose in the past few weeks, said CarnaudMetalbox. "After extensive discussions we have been unable to resolve

some differences," said Mr Jürgen Hintz, chairman of the Franco-British group. He said the decision not to pursue the merger had been amicable and joint development projects between the two companies remained possible.

The failure is thought to have centred on reservations by some of Wheaton's shareholders about their level of control of the 50-50 joint venture.

Virtually all of Wheaton's shares are held by relatives of the family which founded the group. Under the terms of the agreement, Mr Hintz was to be chairman of the joint venture, while Mr Bob Veghte, from

Wheaton, was to be chief executive officer.

CarnaudMetalbox said it was disappointed by the collapse, which it described as an attractive strategic move. The aim was to strengthen its position with cosmetic, pharmaceutical and perfume manufacturers and to provide a broader geographical presence.

The two companies said they had sought to derive benefits from pooling research resources and technical know-how and from expanding their operations in south-east Asia.

CarnaudMetalbox said it remained committed to developing its health and beauty packaging businesses.

## Metall shares tumble 11% to 1994 low

By Andrew Fisher in Frankfurt

Shares in Metallgesellschaft fell further yesterday amid continuing concern over the financial state of the ailing German industrial company and US comments about the handling last year of its controversial oil losses.

As the share price fell by DM15.80, or nearly 11 per cent, to DM133.30 (\$86.40) - a new low for 1994 and the lowest for many years - Deutsche Bank denied speculation that it and other banks involved in the company's rescue (such as Dresdner Bank) were cutting their shareholdings.

Deutsche Bank, a leading creditor as well as shareholder, denied US reports about an alleged investigation by US authorities of the bank's role and that of Metallgesellschaft in dealing with the loss-making oil transactions.

Deutsche Bank North America said in response to US press reports about an investigation by the New York district attorney's office that it had not been contacted by its officials.

The reports centre on allegations that Deutsche may, in the latter stages, have become involved in the management of Metallgesellschaft's controversial US oil business, carried out through MG Corporation.

This would be against US law. Deutsche said the oil expert hired to sort out the futures contracts had never been on the bank's salary list.

Metallgesellschaft said it had no explanation for the continued drop in the shares. Three weeks ago, the shares fell sharply to around DM180 on reports of moves to restructure the share capital; this could include a reduction in capital and a subsequent rights issue. The company has been selling subsidiaries and assets to help restore its finances.

The deterioration in Metallgesellschaft's share price could also be a response to US articles suggesting its losses on oil futures trading could have been diminished if that business had not been liquidated so quickly.

## IMF wants tougher hedge fund rules

By John Gapper, Banking Editor

Stronger requirements for hedge funds and other investors to disclose large trades in government bonds could help prevent manipulation of smaller markets, according to a study by the International Monetary Fund.

The study of trends in international capital markets argues the lack of regular information on position-taking in bond markets makes it hard to determine the impact of hedge funds, or detect manipulation.

Although it says there is no evidence that hedge funds, which may have capital of up

to \$100bn, collude to move prices, it points out that they "often seem to react similarly to a given set of market opportunities".

The study says that information could be "particularly useful in the smaller government securities markets, where the action of a set of players is likely to have a larger potential impact on prices".

Hedge funds have attracted controversy since their role in the 1992 European exchange rate crisis, and the study analyses a number of regulatory concerns over their activities.

It finds no clear evidence that the 800 to 900 hedge funds, which aim for high returns by leveraging capital and making

bets on foreign exchange and bond markets, have increased volatility in bond markets.

Instead, it says that hedge funds add to liquidity in bond markets. It says governments and central banks have found cases where only hedge funds have been willing to buy bonds as prices have fallen so stabilising markets.

The study, released to coincide with the IMF/World Bank annual meetings in Madrid next week, reports the view of one country's supervisory authority that "hedge funds have become the 'buyer of last resort' in some of these markets".

However, it says that the sums which funds have to

deposit with banks in order to borrow cash to trade on bond markets - typically 2 per cent to 4 per cent of the facility - may be too small to prevent markets becoming excessively leveraged.

It points out that hedge funds are calculated to wield up to four times the equity capital of large US securities firms.

More than half the capital is thought to be in "macro" funds that make bets on changes in interest and exchange rates. *International Capital Markets: Developments, Prospects and Policy Issues*; IMF Publication Services, 700 19th Street NW, Washington, DC 20431; \$24.

## BgB's sale raises mortgage stakes

The bank aims to pool resources with Nord LB, writes Judy Dempsey

The recent decision by Bankgesellschaft Berlin (BgB) to sell a 10 per cent stake to Norddeutsche Landesbank (Nord LB) for DM1bn (\$600m) could mark a turning point in BgB's strategy to capture a niche in the rapidly expanding mortgage sector in north and eastern Germany.

Nord LB's access to BgB should allow the Hanover-based bank, the largest public savings bank in the region, to start denting the monopoly held in the eastern state of Brandenburg by Westdeutsche Landesbank (Girozentrale, Lower Saxony's largest bank).

BgB, which was founded last January, is one of the first German institutions to bring the public and private banking sectors under one holding company. BgB includes the state-owned Landesbank Berlin, the private Berliner Hypothek- und Pfandbriefbank mortgage bank.

Through its monopoly stake in Landesbank Berlin, the region's public savings bank, the state of Berlin holds a 67.7 per cent stake in BgB, with the

Gothaer Insurance group holding 10 per cent, and minority shareholders holding the remaining 22.3 per cent. By last June, BgB's consolidated business volume was DM222bn. However, the ability of the state of Berlin to retain its

high stake has been undermined by the city's parlous finances. It is strapped for cash, running a budget deficit of nearly DM5bn, and embarking on more public spending cut-backs. As a means of reducing the deficit, the state of Berlin is free to decrease its stake in BgB to 50 per cent plus one share, the minimum required to legally guarantee the deposits of Landesbank Berlin. The question was how it would find the right partner for the initial sale of a 10 per cent stake in the Landesbank Berlin.

"We had been seeking Nord LB as a partner for some time," said Mr Dietrich Beier, BgB's chief economist. "Of course, the DM1bn which the state of Berlin will obtain from selling a stake of the Landesbank is very important for the city's finances. But for BgB, we saw Nord LB's presence in BgB as a crucial development of our strategy," he added.

Part of BgB's strategy with Nord LB is targeted on the mortgage sector, reckoned to be one of the fastest growing sectors in eastern Germany. Private residential demand - and demand for housing loans in the five eastern states - is expected to grow between 12 per cent and 15 per cent this year, and continue to grow by double digits over the next few years. But the question is how Nord LB and BgB can together tap into the market.

At the moment, there are two mortgage banks in the BgB holding company: Berliner Hypothek- und Pfandbriefbank, and Braunschweig-Hanoversche Hypothekbank in which Nord LB holds a 30 per cent stake and BgB 60 per cent.

"What we want to do is to merge these two mortgage banks and pool our resources because we can then tap a huge market in this part of Germany," explained Mr Beier. Such a merger would either require the agreement of Nord LB, or else BgB would need to hold 75 per cent of Braunschweig-Hanoversche Hypothekbank to push through the merger. That would mean buying 15 per cent of Nord LB's stake in the mortgage bank.

BgB believes it can avoid this costly step and still merge the two mortgage banks largely because of the new relationship formed with Nord LB following its 10 per cent stake in BgB.

"We would hope to pool our resources in the two mortgage banks," said Mr Ralf Serna, head of investor relations in BgB. Such a merger would lead to the creation of Germany's fourth largest mortgage bank, but the largest one in terms of assets.

For Nord LB's part, the merger, the access by Nord LB and BgB to each other's customers and markets, and Nord

LB's 10 per cent stake in BgB would allow the Hanover bank to gain a foothold in the state of Brandenburg.

More crucially from Nord LB's point of view, it would be in a much stronger position to challenge West LB. Nord LB's great competitor which is making rapid inroads into eastern Germany.

For BgB, Nord LB's stake in BgB would allow this Berlin financial institution to take over the Nord LB's EDP computer processing system. At the moment, all three banking institutions under BgB have different computer systems. And since BgB has identified Nord LB as the most effective network - Landesbank Berlin is operating under its system - all the software of the BgB will be lined up with Nord LB. "We will all have immediate access to customers, accounts, and information," said Mr Beier.

Once the mortgage banks are merged and Nord LB's 10 per cent stake in BgB is signed and sealed, BgB will tackle its next project. With the state of Berlin's stake in Landesbank set to decrease by 10 per cent to 57.7 per cent following its sale to Nord LB, there is speculation that Berlin is seeking to reduce its stake to just above 50 per cent.

"In which case, we would consider a foreign partner," said Mr Beier.

## Italian metal group breaks even

By Andrew Hill in Milan

Europa Metall-LMI, the Italian metals group with interests in France, Spain and Germany, broke even at an operating level in the first half of 1994. This follows two years of restructuring and heavy losses and provided further evidence of improved demand for industrial goods.

Europa Metall, which specialises in the production of semi-finished goods and copper alloys, yesterday reported a small first-half net consolidated loss of L6.6bn (\$4.24m) against a loss of L50.3bn in the equivalent period last year, and L31.6bn in the whole of

1993. The company said the result had been affected by a poor performance at its Spanish operation, which was being restructured, and a small loss in defence products. Group turnover increased 5 per cent to L131.5bn.

Europa Metall is the main operating component of the group of companies headed by Mr Luigi Orlando, one of Italy's best-known businessmen. It is controlled by Societa Metallurgica Italiana, another quoted Italian company, 47 per cent of which is in turn owned by the quoted holding company Generale Industrie Metallurgiche. The Florence-based company confirmed it was con-

tinuing to study ways of improving the group's structure, and reinforcing its financial position.

The company added if the economic recovery continued, Europa Metall would be able to repeat its small first-half profit on industrial activities in the full year.

KM-kabelmetal, the company's quoted German subsidiary, made a profit of DM10.7m (\$6.9m) in the first half, against a loss of DM4.4m in the equivalent 1993 period.

Tréfinmétaux, the French operation, also returned to break even, having lost FF39.5m (\$7.45m) in the first half of 1993.

## Cockerill seeks Eko Stahl stake

By Judy Dempsey in Berlin

Cockerill Sambre, Belgium's biggest steel producer, wants to buy a 60 per cent stake in Eko Stahl, eastern Germany's loss-making steel mill, with a further option on buying the remaining 40 per cent, Cockerill said yesterday.

At the same time, Cockerill confirmed it wanted to build an integrated steel mill, incorporating a hot-rolling mill with the aim of gaining a bigger foothold in the German market as well as expanding in eastern Europe.

Eko Stahl, located in Eisenhüttenstadt in the eastern state of Brandenburg, is close to the Polish border. "We think Eko Stahl would be a very interesting investment given the fact that we want a greater presence in Germany," Cockerill said.

Cockerill, which last week submitted a formal bid to the Treuhänder privatisation agency, said it would be investing between DM800m and DM1bn (\$519.4m-\$690m) if the deal was accepted.

However, officials added that the Belgian enterprise expected

the same level of state and federal support as was originally offered to Riva, the Italian steel group which last May suddenly withdrew its purchase offer to the Treuhänder. The agency is due to respond to Cockerill's bid by October 10.

The purchase of Eko Stahl would lift Cockerill's annual capacity. Last year, the east German mill produced 900,000 tonnes of steel, a fall of nearly 1.2m since it was placed under the Treuhänder in 1990. Cockerill's annual steel capacity is 4.5m tonnes.

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## INTERNATIONAL COMPANIES AND FINANCE

## Air France under pressure to reduce stake in Sabena

By Emma Tucker in Brussels and John Fiddling in Paris

Sabena is seeking to pressure Air France into reducing or selling its minority stake in the Belgian state-owned carrier to enable the formation of partnerships with other interested airlines.

Sabena confirmed yesterday that Delta, American Airlines, Swissair and KLM had expressed an interest in buying a share of the company. Under an alliance formed in 1992, Air France owns two thirds of Finacta, a Belgian holding company which has a 37.5 per cent stake in Sabena.

Mr Elio di Rupo, the Belgian transport and communications minister, and Mr Pierre Godfrid, president of Sabena, are examining the findings of a report assessing the relationship between the two airlines. They are unlikely to comment on the report, carried out by

Lazard Frères, the French bank, before the middle of next month.

"It is clear that we can't stand still in this period of rapid transition of the aviation world," Sabena said yesterday. "If we do, we will lose terrain to our competitors."

Air France said that it had not yet received the report from Lazard and that it did not intend to sell its stake in the Belgian airline. "We are in Sabena and we will stay there," the French state-owned carrier stated.

Air France officials said that they had performed their duty as a shareholder in Sabena, completing the fourth and final \$310m (\$31m) payment for its investment in July. The payment was the subject of uncertainty given the financial constraints facing Air France, which suffered losses of FF6.48bn (\$1.6bn) last year.

The French airline said that

the report commissioned from Lazard is aimed at presenting an analysis of the performance and prospects of the alliance. The partnership has brought co-operation in several areas, including the co-ordination of flights between Paris and Brussels, shared agencies in some cities and co-operation on air miles schemes.

Industry observers said that Sabena was seeking to forge new partnerships in an attempt to strengthen its international operations. Both Sabena and Swissair have co-sharing agreements with Delta under which they link their route networks on booking systems. The airlines plan a joint service between Chicago and Brussels from November and co-operation in areas such as cargo and passenger handling. Analysts believe the agreements could herald a deeper strategic partnership between the airlines.

## Chrysler unit adds lawsuit to Castor pile

By Bernard Simon in Toronto

The pile of lawsuits surrounding Castor Holdings, the Montreal-based property finance group which collapsed in 1992, has grown further with a C\$200m (US\$149m) claim by Chrysler's Canadian subsidiary against a Toronto-based trust company which acted as custodian for Chrysler's pension funds.

Chrysler Canada's pension fund was the biggest single creditor of Castor, which was created by Mr Wolfgang Stoitschberg, the German-Canadian financier, as a tax-sheltered vehicle for European investors to share in the 1990s North American property boom. Many of Castor's investments were in high-risk second and third mortgages.

Castor's creditors have submitted claims of about C\$1.3bn against the estate. However, the chances of them retrieving anything are negligible.

The creditors and Castor's bankruptcy trustee have also launched numerous legal proceedings, notably against Coopers & Lybrand, Castor's auditors. The claims against Coopers total more than C\$90m.

Chrysler Canada claims that National Trust is responsible for losses totalling C\$180m which were suffered by its pension fund in Castor's collapse. National said yesterday, however, that all investment decisions relating to Castor were taken by senior Chrysler employees. It said that Chrysler also made direct corporate investments in Castor.

Besides the claims against Coopers, the bankruptcy trustee is also suing Mr Stoitschberg and Castor's other directors. According to the trustee, the directors should be held liable for a dividend declared less than a year before Castor collapsed.

All the actions are being vigorously defended. Coopers has submitted a list of 492 "particulars" on which it wants further information. But the courts have so far allowed it to proceed with only a fraction of the queries.

## Chevron upbeat on Tengiz project

The oil group remains committed to the Kazakhstan scheme, writes Robert Corzine

Chevron, the US oil company, says it had no plans to pull out of its \$20bn Tengiz oil project in Kazakhstan in spite of repeated failures to reach an agreement on an oil export pipeline through Russia.

Mr Ken Derr, chairman, said that negotiations were continuing on the proposed pipeline, "but we have not been able to reach a satisfactory agreement on the financial exposure" of the various parties in the Caspian Pipeline Consortium.

This has not undermined Chevron's support for the Tengiz project, on which it has spent \$800m. Mr Derr said Tengiz was "a one shot opportunity" to make a strategic, long-term investment that would virtually double the company's oil reserves.

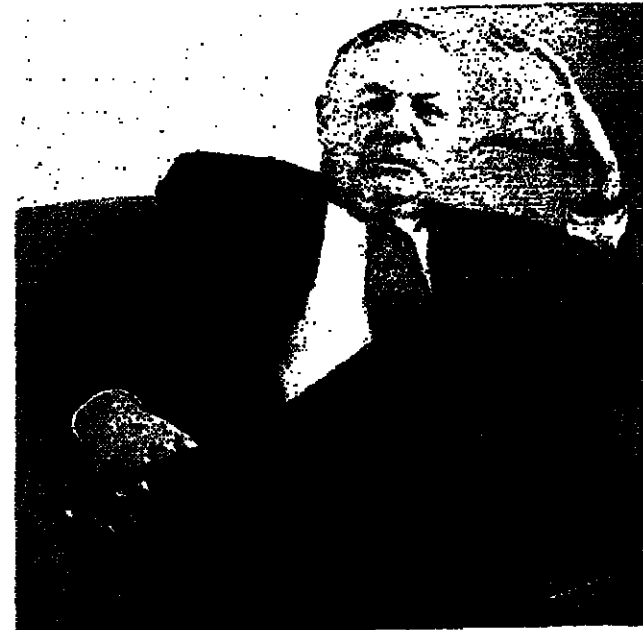
The positions of Chevron and the Kazakh government, the joint developers of the field, were "completely compatible" according to Mr Derr. They have, however, been unable to agree financial terms with Russia and the Oman Oil Company, the other two consortium members. Mr Derr was optimistic, however, that a deal would emerge "sooner rather than later".

In recent weeks Chevron has increased its Tengiz exports to 50,000 to 60,000 barrels a day, almost double the original quota. But that is half of the 120,000 b/d capacity which Chevron will have in

place early next year and well below the planned peak of 700,000 b/d.

Mr Derr said Chevron's financial performance was likely to improve in the second half of the year after a disappointing first, in which low crude oil prices and operating problems at US refineries took their toll.

The sale of some of Chevron's oldest refineries and a \$1bn improvement programme at refineries in its home base of California would place downstream operations in a



Ken Derr describes Tengiz as a 'one shot opportunity'

"very competitive position" by the end of next year, he said.

Chevron's future, he added, "lies in the international exploration and production business" because so much of the US was off limits to oil companies.

But the company saw no reason to split its international E&P business from its domestic operations. They were already separated internally, said Mr Derr, and the combination gave the company a "built-in balance".

## Nextel plans \$78m deal to buy AMS

By Louise Kehoe in San Francisco

Nextel Communications, which aims to create a US-wide wireless communications system, has announced plans to acquire American Mobile Systems for stock in a deal valued at about \$78m.

Last year Nextel reached agreement to acquire up to 61 per cent of AMS for cash and certain assets. The restructuring of the agreement into a non-cash transaction follows the cancellation of MCI's plans to acquire a 17 per cent stake in Nextel for \$13m.

The previous agreement between Nextel and AMS will be terminated when the companies enter into a definitive merger agreement.

Nextel is pressing ahead with plans to create a nationwide wireless communications service combining voice, data, paging and radio dispatch. It recently expanded its services in California to cover San Francisco, Sacramento and Los Angeles.

## Court allows ousting of Wallace McCain

By Bernard Simon

A New Brunswick court has allowed one faction of Canada's feuding McCain family, which controls the McCain frozen food and beverage empire, to oust Mr Wallace McCain as the group's president and joint chief executive.

The court decision follows three years of wrangling between Mr McCain and his brother Harrison over who should succeed them as McCain Foods' chief executive officer, and over the future direction of the multinational company.

McCain Foods has 68 plants in North America, Europe and Australia. It reported sales of C\$2.7bn (US\$2.0bn) last year.

The two brothers, who are both in their mid-60s, founded the company 38 years ago. Their relationship, however, has been marked by lawsuits and public insults since Wallace McCain's son, who is tipped to be the company's next chief executive.

A majority of McCain family shareholders decided earlier

this month to give Wallace the title of deputy chairman. Harrison would remain sole chief executive until an outsider was recruited.

Wallace, who owns some one-third of McCain Foods' shares, sought an injunction to prevent the decision being carried out.

However, Mr Justice Creighton said that "while it is true that Wallace McCain has made a significant if not essential contribution to the success of the company in the past, that is not to say that the company cannot successfully operate in the present without guidance from [him] acting as a CEO."

Wallace McCain has launched a separate lawsuit which seeks to have McCain Foods and its holding company restructured. The restructuring would include a public offering of about 20 per cent of the McCain family's shares. But this proposal has so far been rejected by Harrison McCain and other family members, mainly the children of two other brothers who died.

## Defence expert to head McDonnell Douglas

McDonnell Douglas, the US defence and aerospace group, yesterday announced the appointment of Mr Harry Stoney, chairman of Sundstrand, the Illinois-based aircraft and industrial products company, as its new president and chief executive, writes Patrick Harvey in New York.

Mr Stoney, 58, takes over from Mr John McDonnell, who will remain as chairman. He joins McDonnell at a critical time for the company, which will have to navigate choppy waters as the domestic defence industry reshapes itself in the wake of a sharp contraction in US military spending. As part of that

restructuring, several of McDonnell's largest competitors have joined forces recently in billion-dollar mergers, including Lockheed and Martin Marietta, Grumman and Northrop.

Among his more immediate tasks, Mr Stoney will have to persuade the Pentagon and Congress not to reduce orders of the C-17 military transport plane, and decide whether to sell McDonnell's missile business.

Investors and analysts appeared to welcome the appointment, with buyers bidding up McDonnell's shares \$14 to \$112 on the New York Stock Exchange.

## GM and Moore units sign \$1bn 10-year deal

By Louise Kehoe

EDS, the computer services subsidiary of General Motors, and Moore Business Forms & Systems, the US unit of Moore Corporation of Toronto, have signed reciprocal 10-year agreements together valued at more than \$1bn.

Under the terms of the alliance, Moore will handle all of EDS' forms and commercial printing requirements, a move expected to generate revenues of \$500m-\$1bn for Moore. EDS will assume responsibility for overall information technology support, including process re-engineering and systems development, through an outsourcing agreement. EDS expects to generate revenues of \$400m to \$700m with the agreement.

"Our alliance will enable each company to take advantage of the other's core competencies to help them maintain competitive advantage in their industries," said Mr Gary Anderson, EDS group executive for high-tech manufacturing.

Moore, a leader in the design and production of printed business forms, aims to reposition itself as a provider of information handling services. The company said it would take advantage of EDS' business process re-engineering services to speed up the transformation.

## Eridania Béghin-Say

## Half yearly results in line with expectations

The Board of Directors of ERIDANIA BEGHIN-SAY met on September 21st 1994 under the chairmanship of Mr Renato PICCO. Consolidated accounts for the half year ended June 30th 1994 were reviewed and approved.

The essential consolidated figures are the following:

(In French francs millions)	June 30th 1994*	June 30th 1993	% Change
Net Sales	24,835	24,750	+ 0.3%
Operating Income	1,874	1,990	- 5.8%
Pre-tax income from continuing operations	1,293	1,290	+ 0.2%
Net income - Group share	623	614	+ 1.5%

\* First Half 1994 figures are not strictly comparable to those of the same period one year earlier because of changes in the scope of consolidation.

The decline in operating income (- 6% in total, with the decline of the Sugar & Derivatives Division amounting to 12% of the previous period's total operating income) is due, as expected, to the fact that the Sugar Division did not repeat in 1994 its exceptional performance of the previous period. The other divisions did not make up the difference despite the significant (+ 6% of last period's operating income) improvement in their contribution to overall results.

Pre-tax income from continuing operations and net income were stable compared to the previous period as net financial expense fell because of lower rates and following the conversion into equity of the May 1991 convertible bond issue.

The ratio of net financial indebtedness to total shareholders' equity, which was 0.75 at 31st December 1993, improved substantially as it fell to 0.64 at 30th June 1994 despite the newly consolidated financial indebtedness of CANAMERA and ELOSLIA.

At this juncture, the second half of 1994 looks pretty much like the first: we are therefore confident that we shall turn in a full year performance similar to that for 1993, particularly as early indications of an improvement in the European crushing market should lead - if they are confirmed - to an improvement of the results of that activity.

Mr. Franco Brunetti, Director of Human Resources of Montedison was appointed to the Board of Directors to replace a Director who tendered his resignation.

At the end of the meeting Mr. R. PICCO informed the board of his decision to give up his current operational responsibilities within the Montedison Group. He therefore tendered his resignation as Chairman of the Board of Eridania Béghin-Say.

Mr. R. PICCO added that although he had contemplated this decision some time ago, he had postponed announcing it

in order to assist the new management of Montedison during the delicate phase of restructuring and until that group's organization evolved.

It is clear today that the smooth execution of this restructuring plan has lifted the threat to Montedison's continued existence, therefore enabling Montedison to rethink its strategic management. In that context, the majority shareholder intends to fulfil his natural role of determining the strategic direction of all the Montedison Group's activities. Therefore, Mr. R. PICCO has decided to give up the chairmanship of Eridania Béghin-Say.

Professor ROSSI, Chairman of Ferruzzi Finanziaria and of Montedison, speaking as a director of Eridania Béghin-Say, expressed sadness at Mr. R. PICCO's decision. He thanked him for the sense of responsibility with which he has fulfilled his duties and for the devotion to the company throughout his many years at Eridania.

Professor ROSSI stressed that Mr. R. PICCO had been one of the major authors of Eridania Béghin-Say's remarkable development, of its diversification, its operational organization and of its financial strength. Thanks to Mr. R. PICCO's strict management, Eridania Béghin-Say has had many successes of which its stock market performance is a reflection.

Professor ROSSI's conclusion was to recognize that Mr. R. PICCO had succeeded in putting together a close-knit management team of high quality at Eridania Béghin-Say: this team has been a key factor in the group's success. The Montedison Group reaffirms its full confidence in that management.

The Board unanimously endorsed Professor ROSSI's tribute to Mr. R. PICCO and recognized that Eridania Béghin-Say had remained totally unaffected by the crisis which shook the Ferruzzi Group thanks to its total independence and good management.

Mr. R. PICCO will remain a director of Eridania Béghin-Say for some time yet, in order to ensure a smooth and gradual transition; he will also undertake specific projects as a consultant to Montedison's management.

As far as non operational responsibilities are concerned, Mr. R. PICCO has agreed to remain, for the time being, Chairman of the Italian Sugar Producers Association and Vice-Chairman of the C.E.F.S. (European Sugar Producers Committee), in view of the current drafting by the European Commission of the new sugar regime.

Professor ROSSI proposes that Mr. S. MELONI, currently Managing Director of Montedison, responsible for finance, be appointed Chairman.

The board appointed Mr. S. MELONI Chairman; he was already a member of the Board.

Mr. S. MELONI proposed that the Board confirm Mr. JM FOLZ as Managing director.

## GROUPE PINAULT - PRINTEMPS - REDOUTE

## THE PINAULT-PRINTEMPS-REDOUTE GROUP IS ON TRACK

- Net profit, Group share for the first half year amounts to FF 407m against FF 189m for the first six months in 1993 based on different group structure after the Pinault-Printemps and Redoute merger.
- Consolidated net profit for the first half year is FF 489m against FF 366m for the first six months in 1993.
- Net profit before tax has moved from FF 231m to FF 586m reflecting reductions in indebtedness and continued restructuring of the Group.
- The level of operating profit is being maintained since there have been signs of recovery only in the Professional Distribution Division, and despite the impact of the devaluation of the AFC franc on international trade.
- The second half year should see an upturn in activity. Action plans are being focused on improving balance sheet and boosting profitability in medium term.

On 21 September 1994, Pinault-Printemps-Redoute Supervisory Board chaired by Mr Ambroise Roux considered the consolidated financial statements for the first half of the year as prepared by the Management Board.

## PROFIT AND LOSS ACCOUNT

(in millions of French francs)	30.06.94	30.06.93	30.06.93	31.12.93
		pro forma		(12 months)
Sales	31,574	31,952	30,882	63,300
Operating profit	894	946	938	2,307
Interest charges (net)	(308)	(727)	(707)	(1,152)
Net profit before tax	586	219	231	1,155
Exceptional items	8		379	146
Income tax	(162)		(305)	(480)
Net profit	432		305	721
Net profit before minority interests	489		366	912
Net profit	407		189	511

The pro forma figures are based on a comparable group structure.

## BALANCE SHEET AS AT 30 JUNE 1994

(in millions of French francs)	30.06.94	30.06.93	31.12.93	31.12.92
Fixed assets	22,387	21,965	22,045	23,657
Working capital requirements	5,555	8,075	4,097	5,969
Shareholders' equity	12,242	9,885	11,769	9,310
Provisions	1,962	1,870	2,277	2,066
Net Financial Debt	13,738	18,485	12,096	18,251
* Including shareholders' equity, Group share	10,351	5,764	7,772	5,608

The Pinault-Printemps-Redoute Group is on target. The group has adjusted its scope of consolidation: the following companies were fully consolidated as at 30 June 1994:

- Wilcoix & Gibbs (turnover of FF 6,000m for 1993): on 24 February 1994, the shareholders approved an increase in the share capital of this company enabling Rexel to increase its stake from 28% to 38% and to get the majority votes in the Board.
- THU (turnover of FF 425m for 1993): a German subsidiary of Rexel acquired in February 1994.
- Barthelémy-Folissac (turnover of FF 223m for 1993): four affiliated stores in the south-west of France controlled by Conforama since 4 March 1994.
- A subsidiary of Rexel, GDFI (turnover of FF 683m for 1993) was disposed to the Descours & Cabaud group in March 1994 as its industrial supplies distribution activity was not considered in the core business.
- Furthermore, the shareholders approved the merger of Redoute SA and Pinault-Printemps SA at respective General Meetings held on 18 May 1994.

□ The group's financial structure has been considerably improved. The increase in working capital requirements recorded at mid-year is due to the seasonal nature of operations.

□ Turnover was up by 2.2% (down 1.2% on a comparable group structure): each of the chains took action to maintain profitability in what remains an unfavourable economic climate.

- The Consumer Goods Distribution Division has suffered from the lack of recovery in consumer demand. Divisional turnover has dropped by 1.2% and operating profit has fallen by 5.3% on a comparable group structure due to significant investment in marketing in all lines of business and in particular mail order.

- Recovery in the building industry has had a positive impact on the Professional Distribution Division where turnover and operating profit have increased by 4.1% and 14.7% respectively on a comparable Group structure.

- The International Trade Division, despite the adverse effect of the 50% devaluation in the AFC franc on turnover (- 29.1%), has maintained its margin levels and operating profit (+ 6.2%) due to the rapid implementation of appropriate measures. Excluding exchange rate fluctuations, Group turnover is up 0.5% on a comparable group structure.

□ The substantial decrease in interest expenses due to reductions in indebtedness and a fall in interest rates has enabled profit before tax to be increased twofold.

□ Inclusion of the Redoute Catalogue subsidiaries in the Pinault-Printemps-Redoute group tax system and careful tax planning in respect of foreign subsidiaries have combined to bring the corporate income tax rate down from 41% to 30%.

□ Earnings of companies accounted for by the equity method, that is chiefly from the Credit and Financial Services Division, continue to improve.

□ Net profit, Group share is FF 407m against FF 189m for the first six months of 1993. The number of shares in issue has been changed as a result of the merger of Pinault-Printemps and Redoute.

□ Consolidated net profit for the first half year is FF 489m against FF 366m for the first six months of 1993.

In the second half of 1994, the Group will be in a position to take advantage of the economic recovery across all divisions. Once clearance has been obtained from the Minister of the Economy, the FNAC will join the Pinault-Printemps-Redoute group as part of its strategy to strengthen and develop its multiple retail activities.

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## Tokyo relaxes rules to allow derivatives trade

Parties able to take part in the transactions will include commercial banks, securities houses, companies with credit ratings, and companies listed on the main stock exchange or over-the-counter market, said the ministry.

The deals are subject to government and shareholder approvals, and possibly some pre-emptive rights. The contractual completion date is June 30 next year.

Mr Champion de Crespigny said the transaction represented a quantum leap in offshore expansion for Normandy. The new venture would provide access to exploration ground and potential for further acquisitions.

Its assets would include an iron ore project in Guinea, a mineral sands project in Cameroon and control of the Yanacocha and gold mines in Peru.

Scott Paper said it had no need to raise equity capital in Tokyo.

The exodus of foreign companies, plus heavy staff cuts among foreign banks in Tokyo over the past year, has underlined how Tokyo's capital markets are losing competitiveness to fast-developing financial centres in Asia and rivals in the US and Europe.

Under the deal, Austereo will purchase Village's Triple M radio stations in Sydney, Melbourne, Brisbane and Adelaide and may acquire Triple M in Perth by means of the share issue. The Triple M stations will join the current Austereo network comprising seven stations in Sydney, Melbourne, Brisbane, Adelaide and Canberra.

The merger is subject to clearance by the anti-monopoly Trade Practices Commission and approval by Austereo shareholders.

**The Commercial Bank of Kuwait** said its net profit rose 8.4 per cent to KD11.5m (\$38.7m) in 1993 from KD10.6m in 1992, Reuter reports from Kuwait.

It said in its 1993 annual report that net income from banking activities rose to KD21.5m from KD21.1m in 1992.

The bank approved a dividend of 10 per cent in bonus shares worth a total of KD6.84m.

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## Inchcape warns on Japanese car sales

By Andrew Bolger

Inchcape, the international motors, marketing and services group, yesterday confirmed that the strength of the yen had hit sales of Japanese cars in Europe, but said all the rest of its operations were performing well.

Mr Charles Mackay, Inchcape's chief executive, said: "It has been very tough for the Japanese manufacturers - and might be for some time. But make no mistake, they will be back."

Mr Mackay said the Japanese had moved their vehicles too far upmarket, seeking higher prices and offering more sophisticated equipment. This had cost them sales when recession struck, but they were now bringing in new models and cutting their production costs.

Inchcape reported a 4 per cent drop in pre-tax profits, from £130.4m to £125.5m in the six months to June 30 on flat sales of £3.63bn.

Sir David Plastow, chairman, pointedly failed to repeat the optimism he expressed at the group's AGM in May that the



Sir David Plastow with Jade Ji, part of Inchcape China's management team in Beijing

full-year profits would exceed last year's level of £272m. However, analysts were reassured by the overall tone of the statement. The shares, which have fallen by a third this year, closed unchanged at 410p in a falling market.

Sir David described the results as a "satisfactory overall performance" - particularly since the previous period

included a £10.6m profit contribution from a joint venture exporting Toyota vehicles to China, which had now ended. Excluding this, underlying group profits grew 6 per cent, in spite of a £90.6m drop to £19.5m in the profits contribution from distributing Japanese vehicles in Europe.

Inchcape said its Japanese motors businesses held up reasonably well outside Europe, and the contribution from the group's European and American

canonised around the world improved strongly. The retail motors operations were now benefiting not only from the rationalisation in the UK and continental Europe, but also from an upturn in the cycle in the UK. Operating profits from total motor activities fell 11 per cent to £81.8m.

The marketing stream increased operating profits by 20 per cent to £34.2m after a difficult 1993, although Japan continued to suffer from recession.

All the services businesses performed strongly. Insurance - primarily Bain Clarkson - grew operating profits by 31 per cent to £18.4m. Hogg Group, bought for £177m in April, contributed £1.1m after financing costs in its first month.

Testing services increased profits by 23 per cent to £9.8m, with the petrochemicals business benefiting from restructuring over the last two years. An upturn in mining exploration activity helped the minerals business.

Shipping services raised profits 26 per cent to £7.8m, with a 10 per cent increase in the Middle East operations. The small buying business returned to profit.

Earnings per share fell by 7 per cent to 14.8p (15.9p), while the interim dividend rose by 3 per cent to 6p (5.9p). See Lex

## Eurotunnel share fall casts doubt on finances

By Simon Davies

Eurotunnel's share price fell 19p, or 7 per cent, to 250p yesterday, as reports of leaks in the Channel Tunnel added to the challenge the company faces in avoiding a further refinancing, following its May £250m rights issue.

The salt water leaks were dismissed by the company as in line with the design, with the only problem coming from the silting up of parts of its secondary drainage system. Eurotunnel said it would cause no further delays to the start of a paying passenger service.

More of a problem, however, is the impact the story could have on public perception of the tunnel, and the knock-on effect of a low share price on anticipated capital from the conversion of warrants.

At the time of the rights issue, the company's financing plan gave £473m of leeway. However, this figure assumed that about £180m would be raised from conversion of the 1993 warrants, expiring in October 1995. The warrants have a conversion price of marginally above 300p, making this source of capital far from certain.

In addition, the rights prospectus anticipated £137m of revenues for the current year, which assumed the commencement of the passenger shuttle service in October. This has been put back by six weeks until mid-November. This is likely to remove at least half the projected turnover from the passenger service for the current year.

Mr Richard Hannah, an analyst at UBS Securities, said: "The funding margin is looking very tight, and it looks like a third rescue rights issue could be in the offing during the next 12 months."

The company's banks separate projections indicated a funding margin of only £34m, excluding cash from the warrants. With £48m of income due to have come in from Le Shuttle in 1994, much of that margin will have disappeared through the delay in the customer service.

The company has a further £50m from a fall back loan facility from Morgan Grenfell and Warburg. It is also involved in arbitration over delay in the start up of the Eurostar service and is claiming up to £400m, plus tariff increases.

## Camas makes \$15.1m purchase in US

Camas, the building materials group demerged from English China Clays in June, is paying \$15.1m (£9.5m) for the majority assets of C&M Ready Mix Concrete of Boulder, Colorado.

The assets comprise about 12m tons of proven aggregate reserves, which are situated north-east of Denver, five ready mixed plants and a fleet of concrete delivery trucks. In addition, Camas will receive \$3m of income from trade contracts already undertaken.

Mr Christopher Bailey, Camas finance director, said the deal would probably push the group into first position in the Denver ready mix market ahead of Redland.

C&M reported operating profits of £1.5m in 1993.

## Bass shares slip after statement

By Roderick Oram, Consumer Industries Editor

Shares in Bass slipped 17p to 320p yesterday after it delivered a cautious trading statement which indicated its breweries and pubs remained under intense competitive pressure.

The group's beer sales fell 0.8 per cent in volume terms in the first 48 weeks of this financial year while the UK market fell 1.2 per cent.

Brewers had pulled back from the large trade discounts they were offering last year and in this first half, but there was "still a knock on effect" in pricing overall, said Mr Ian Prosser, chairman.

Bass's gross profit margins on beer were slightly lower in the second half than the first, although this reflected in part an 11 per cent reduction in the number of pubs in Bass Tavern's estate.

On a like-for-like basis, pubs managed by Bass reported a 3 per cent rise in takings within which food revenues were up 8 per cent, indicating a decline in drink sales. Mr Prosser declined to give a figure for the

decline in beer volume sales in Bass pubs but said the group "had done better than the market" which was down about 5 per cent.

Off-licence beer sales were up 6.4 per cent. Bass's other activities showed progress in the year to date with Britvic, the soft drinks business, benefiting from the UK's hot summer. Its volumes were up 9 per cent in the first 48 weeks after being ahead only 3 per cent at the half year.

Holiday Inns reported a rise in occupancy and room rates in the Americas. In Europe, a slight decline in room rates was offset by higher occupancy.

Bingo clubs reported a 5 per cent increase in spending per head. Betting shop turnover was up 4.3 per cent and the average stake was 2.3 per cent higher.

Bass enjoyed a strong cash inflow in the second half after an outflow in the first half. Bass Breweries, for example, was cash positive and is expected to remain so for "the foreseeable future". See Lex

## Hodder Headline jumps to £2.05m

By Raymond Snoddy

Hodder Headline yesterday announced a large profits rise in its first interim figures to include results of Hodder & Stoughton acquired last year.

Sales quadrupled to £33.4m (£8.3m) and pre-tax profit more than tripled to £2.05m in the first six months of 1994, against £570,000 last time.

The results were accompanied by the announcement that Mr Tim Hely Hutchinson, chief executive, had decided to leave the net book agreement that sets minimum prices for most books in the UK. From Christmas booksellers will be free to discount Hodder Headline titles if they want to do so.

Mr Hely Hutchinson said the results "look particularly strong viewed with the background of flat UK trading conditions and the very substantial reorganisation we have been completing."

The company said the post-merger reorganisation was now largely complete and Hodder, which plans to publish more than 2,000 titles in 1995 compared with 1,700 this year, is looking for expansion and acquisitions that will enhance earnings.

The company is interested in increasing the size of its reference, schools and children's publishing operations. If the company is unable to make a significant acquisition in the next year, Mr Hely Hutchinson said yesterday: "I think I would be very disappointed."

Earnings per share rose by 41 per cent to 3.8p (2.7p) and the interim dividend increased to 3p (1.8p).

Mr Hely Hutchinson said he looked forward to a "good second half" and analysts are expecting pre-tax profits of about £2m for the full year. Lord Donoughmore, Hodder's chairman and Mr Hely Hutchinson's father, also revealed that from May it had ceased to recognise trade unions.

"The board does not believe trade unions have a useful role to play in the group," Lord Donoughmore said.

## Cornwell Parker declines to £3.15m

By Peter Pearce

Weaker furniture sales helped lead to a decline in pre-tax profits at Cornwell Parker, the furniture and fabrics group best known for its Parker Knoll chairs. In the year to July 31 profits fell from £4.61m to £3.15m.

However, Mr Martin Jourdan, chairman, said group trading profits in the second half were "significantly higher" than in the first. However, year on year, they fell to

£4.33m (£5.08m).

There was a £705,000 (nil) charge relating to further reorganisation of Fardis, the French fabrics business.

Mr Jourdan said that tax increases earlier in the year had "not obviously damaged demand". While he acknowledged that the recession was over, he stressed that the feel-good factor was "not yet with us. The middle classes are just not buying."

Operating profits of £3.68m (£5.21m) took in losses of

£26,000 from Minty Design Furniture, against losses of £133,000 from Lock, the now closed importer of antique furniture from Romania.

Group turnover was flat at £89.5m (£89.2m) including £598,000 from Minty (£1.18m from Lock).

Trading profits in the furniture division emerged at £2.1m (£3.6m) on sales lower at £48.4m (£50.6m).

Retail sales fell at Parker Knoll in spite of new product launches.

The fabrics division lifted profits by £876,000 to £2.2m on sales up 7.5 per cent at £41.5m. About one third of those sales were exported and the proportion of exports rose to 31 per cent.

The final dividend is unchanged at 4p for a maintained total of 5.7p, which is uncovered by earnings of 4.6p (7.3p) per share. However, Mr Jourdan said the payout was covered by the trading profit after tax, while the Fardis restructuring costs would come in part from reserves.

## Close Brothers 86% ahead to £33m

By Nicholas Denton

Close Brothers, the fifth largest quoted UK merchant bank has sustained its record of profit growth, and for the year to July 31 announced pre-tax profits ahead from £17.82m to £33.08m.

The 86 per cent advance was achieved on operating income of £76.5m (£53.1m), up 45 per cent.

The half-year results had exceeded market expectations but the full-year figures diverged only marginally from analysts' forecasts and the share price closed unchanged at 215p.

Earnings were diluted by the £17m share issue made by Close Brothers to finance the acquisition last year of Winterflood Securities, the market maker in the shares of smaller companies.

Earnings per share increased by 61 per cent from 13.7p to 22.1p.

Winterfloods, traditional merchant banking and asset financing contributed in roughly equal measure to total profits.

Subtracting the impact of the acquisition of Winterfloods, Close Brothers' other activities showed an increase in profit contribution of about 50 per cent.

This figure too was flattered by a fall in provisioning for bad and doubtful debts from £7.4m to £4.6m. Stripping out this line, underlying organic profits growth at Close Brothers was about 27 per cent, according to one analyst.

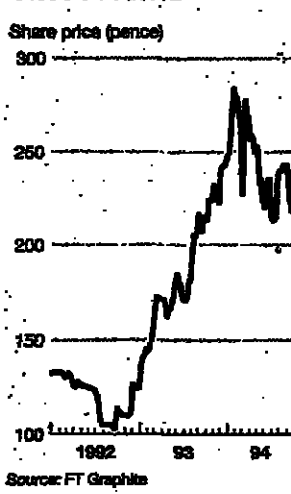
The proposed final dividend of 5p (3.9p adjusted) lifts the total from an adjusted 5.5p to 7.5p.

Total assets at the year-end had improved by 24 per cent to £715m (£575m).

COMMENT

Close Brothers is a victim of its

own success. The firm's results cannot rebound because they never fell; the company yesterday reported its 19th consecutive year of profits growth. The reduction in provisioning has



gone about as far as it can. Further improvement in results has to be achieved on top of a high base. Winterflood Securities may have had a record year but analysts judge it is past its peak and will prove a drag on profits growth in the current year. Nor does Close Brothers have the steady fee income that other larger firms have through their fund management arms. That said, Close Brothers' record is not one to suit at consistent profit growth, the lowest cost-to-income ratio in the merchant bank sector, and the highest return on equity. Merchant banking and asset finance are well-placed to benefit from the economic recovery in which Close Brothers say their clients are clearly sharing. Analysts' forecasts of roughly stable profits of £32m-£44m give a prospective p/e of about 10. Its small discount to the sector's 10.3 rates a tentative buy.

## Sycamore director leaves

By Caroline Southey

Sycamore Holdings, the loss-making laboratory, office, and garden furniture group, yesterday announced the resignation of Mr Adam Kingston, its operations director.

In July the company announced the resignation of non-executive director Mr Michael Guntion. Three days later Sycamore warned of substantial write-offs for the financial year and said its bankers were reviewing the level of financing facilities in light of the

expected provisions.

In August Sycamore announced pre-tax losses for the six months to 31 March of £1.94m, against losses of £6.85m; turnover was £9.71m (£10.16m). Operating losses stood at £509,000 (£4.68m).

Sycamore has been in discussions with its bankers since last year, when the value of net assets fell to less than half its called up share capital.

Mr Kingston joined Sycamore in April 1993. Sycamore's shares closed unchanged at 1/4p yesterday.

## Hanson makes three US disposals for £40m

By Caroline Southey

Hanson Industries, the US arm of Hanson, announced the completion of three asset sales for £40m, which will realise a pre-tax gain of about £3m.

"These latest disposals are part of the general process of tidying up Hanson's portfolio," said Mr Christopher Collins, director of corporate development.

The disposals fit in with Hanson's strategy of reducing debt through disposals and floating assets while expanding its core businesses. In the financial year that ends on Friday Hanson has sold assets worth more than £250m on both sides of the Atlantic.

These included the flotation of its Beazer housebuilding operations, the sale of 11 UK companies to management buy-out teams backed by Electra, the venture capital group,

and the sales of Axelson oil industry equipment group and Hanson Office Products contract stationery business.

The latest disposals in the US include International Mini Warehouse Associates, which was part of the Kilde acquisition in 1987 and owns nine warehouses in New Jersey and Connecticut.

Proctor & Schwartz, part of the SCM Corporation acquired by Hanson in 1988, which designs and manufactures industrial drying and heat setting machines for the food, tobacco, textile and chemical industries, has also been sold.

Hanson also announced the sale of 100,000 acres of land, including surface and mineral rights, which it acquired with the purchase of Beazer in 1991. The assets sold generated operating profits of £2.3m in the year to September 30 1993 on turnover of £38m.

## Automotive Products drops into £4.7m loss

By Tim Burt

Automotive Products, the motor components subsidiary of BBA, yesterday reported a first-half loss following the parent company's decision to settle a long-running patent infringement case for £13.1m.

The company, which traditionally issues a separate cost-cutting statement to BBA, made pre-tax losses of £4.7m in the six months to June 30, against profits of £5.7m.

The figures were underpinned by the payment earlier this year of £18.4m (£11.9m) to Tilton Engineering, the US company which sued Automotive Products for manufacturing

carbon racing clutches on which it held patents.

Operating profits, meanwhile, were unchanged at £2.1m (£1.9m).

Mr Peter Clappison, finance director of BBA, said the sluggish figures disguised a general improvement in trading conditions and the success of cost-cutting measures.

Although he highlighted 230 job cuts at the subsidiary, he made no mention of the departure of Mr Peter Crawford, chief executive of the automotive business, who left in July following a disagreement with Mr Roberto Quarta, BBA chief executive.

## Enterprise Computer in red

By Alan Cane

Enterprise Computer Holdings suffered a slide in turnover from £58.2m to £16.4m in the year ended March 31, after a series of disappointments left the Basingstoke-based computing services group in the red again.

In a note to the full-year financial statements, the auditors observe there is a fundamental uncertainty over whether the company's bankers will renew facilities and so ensure that the group and its

subsidiaries "will continue in operational existence". The auditors, Stoy Hayward, have not qualified the accounts because of this, however.

The group made slightly higher operating profits of £4.9m, but interest charges and rent resulted in a loss after tax of £1.96m (£5.75m). Loss per

share was cut to 2.6p (7.4p). No dividend is being paid.

Enterprise has been changing market position from a seller of secondhand mainframe computers to more broadly based computing services but Mr John Small, chairman, said the process was taking longer than expected.

### DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Current dividend	Corresponding dividend	Total for year	Total last year
Albert Mead	4.5	Oct 31	3.2	-	10.5	-
Allied Lond Prop	2.7	Jan 3	2.455	3.88	3.53	-
Atrous	0.486	Jan 4	-	0.75	-	-
Bilham (J)	2.2	Oct 31	2.2	-	5.3	-
Clarke McKillop	0.1	Oct 28	0.1	7.5	9.9	-
Close Brothers	5	Nov 30	4.5	7.9	6.9	-
Community Hosp x	4	Nov 3	4	5.7	5.7	-
Cornwall Parker	2	Oct 28	1.65	-	5	-
Hodder Headline	0.375	Nov 30	0.375	-	0.75	-
HTV	0.75	Nov 11	0.75	-	1.5	-
Inchcape	6	Jan 3	5.8	-	14.8	-
Kearford	1.15	Nov 21	0.1	-	3	-
Lyles (S)	2.5	Jan 3	1.75	3.5	3.3	-
Metabax	1	Oct 28	0.81	-	3.64	-
Northern Leisure	2	Dec 2	0.1	-	2	-
Redrow	1.8	Nov 10	-	1.8	-	-
Refuge	3.7	Dec 6	3.45	-	11.35	-
T&S Stores	2.8	Nov 25	2.5	-	6.1	-
United Inds	0.1	Nov 22	0.1	-	0.1	-

Dividends shown pence per share net except where otherwise stated. \*Ton increased capital. \$USM stock. \*Adjusted for scrip issue. \*US currency. \*Gross.

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\*Source: Global Surveys in Europe 1993



## COMPANY NEWS: UK

## Community Hospitals lifts annual pre-tax profits by 26% Director quits after failed coup

By Tim Burt

Community Hospitals Group, the private medical care company, yesterday said one of its senior directors had left the group following a failed boardroom coup.

Mr Oliver Prentice, managing director of the company's continuing care division, resigned earlier this month after the board rejected his bid to oust Mr Alan Dexter as chief executive.

Although the company released few details of the dispute, it admitted there had been a clash of personalities between Mr Dexter, who led the group to flotation in 1993, and Mr Prentice, widely credited with building its nursing homes business.

"I knew Oliver had aspirations to become chief executive, but this was a surprise move," said Mr David Croker,

finance director. "He asked the board to make a choice, and when they backed Alan he had no alternative but to leave."

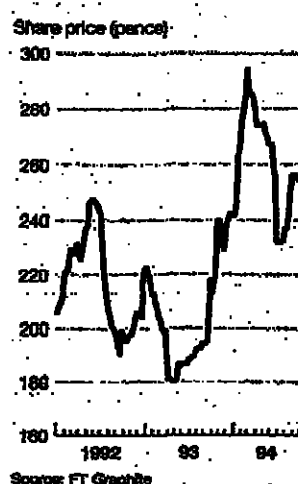
Mr Dexter claimed there was no strategic argument with Mr Prentice, who is negotiating a compensation package based on his two-year rolling contract and £77,000 annual salary.

City analysts, however, suggested that Mr Prentice might have quit because he feared that plans to invest up to £2.5m on enlarging the group's Duchy Hospital in Cornwall would divert funds from nursing home development.

The continuing care division, comprising 13 nursing homes, homecare services and sheltered accommodation, helped lift pre-tax profits by 26 per cent to £7.7m (£6.1m) in the year to June 30.

Although the division saw profits increase by more than a

## Community Hospitals



third to £2.35m (£1.76m), its contribution was overshadowed by £2m (£6.2m) from the hospital division.

Together, the two sectors

underpinned a 26 per cent increase in operating profits from £7.96m to £9.95m on increased turnover of £57.6m (£49.4m).

The improvement was helped by growth in private medical insurance and maiden contributions from three new nursing homes and a new hospital in Colchester, which opened in January.

Mr Dexter said the group planned to consolidate operations at its 10 hospitals and gradually win greater market share for the continuing care business.

Earnings per share rose from 14.3p to 17.3p and an increased final dividend of 7.5p (6.9p) has been proposed.

While welcoming the results, analysts left profit forecasts for this year unchanged at about £8.7m, putting the shares, up 1p at 256p yesterday, on a forward multiple of 13.8.

## Wellcome ends cancer drug trials

By Daniel Green

Wellcome has abandoned research on one of its more promising drugs intended for use in cancer and organ transplants.

Campath 1-H, licensed from British Technology Group, was set for launch in 1997 and had potential sales of £250m (£158m) a year, according to Lehman Brothers, the stockbroker.

Wellcome said data from the latest clinical trials showed only low or moderate efficacy and therefore "this compound is not likely to have adequate commercial potential". The drug had reached phase two of human clinical trials, a relatively late stage in the expensive development process for a drug to be recognised as a failure. Wellcome had been conducting trials with it since 1991.

The areas of study were in cancers, including non-Hodgkin's lymphoma, and in advanced rheumatoid arthritis, a condition caused by the failure of the immune system.

## £100m interest gloom for Brent Walker

By David Blackwell

Interest payments of more than £100m overshadowed an improvement in interim operating profits at Brent Walker, the bookmaking and public house group laden with £1.4bn of bank debt.

The group, which is also losing Sir Keith Bright as chairman, warned that turnover in its core business had shown "little sign of an upturn, leaving the results potentially vulnerable to competitor activity and the economic climate, especially in the short term."

Operating profits increased from £27.4m to £35.5m for the six months to June 30, while turnover edged ahead from £868.9m to £867.9m. But after exceptional gains and payment of net interest at £103.6m (£98.1m) the loss amounted to £73.5m, compared with a previous loss of £83.3m. The deficit in shareholders' funds widened from £839.8m to £877m.

A £10m cost incurred by breaking previous finance

arrangements at the William Hill betting chain is believed to be the main reason why the latest interest payment is higher than for first half 1993. The group will pay only £20m of the interest total in cash, with most of the rest converted into preference shares.

Sir Keith joined the group in January last year in order to oversee the reorganisation of its finances, including the refinancing last March of a £225m loan at William Hill. He feels that he has completed the work he originally undertook, and now "wishes to follow other interests."

He will be replaced by Sir Brian Gosnell, already a non-executive director, and a senior partner in Healey & Baker, estate agents and surveyors.

Operating profits at William Hill, now the main engine of the group, improved from £24.5m to £30.8m on turnover of £306.8m (£291.4m). The group described its retention of market share as "encouraging" ahead of the National Lottery launch in November.

However, "the most significant event" was the refinancing that had enabled the chain to stay within the group. Mr John Leach, finance director, said yesterday that flotation was an option for William Hill, "but not necessarily the only one".

Brent Walker is claiming £200m in a dispute with Grand Metropolitan over the purchase of the chain, which is in the balance sheet at £897.2m. A valuation of the assets at the end of last year showed it was worth £498.1m.

The Pubmaster chain of public houses reported increased operating profits of £5.77m (£5.14m) on turnover of £48.1m (£46.9m).

Operating profits at the "other businesses division" - which includes the Cardiff International Arena and Brighton Marina - fell to £1.77m (£1.11m) on turnover of £15m (£18.8m). The loss per share was 20.53p (24.32p). There is no dividend on either ordinary or preference shares.

## Metaltrax advances to £4.11m

By Andrew Bolger

Metaltrax Group, the precision components, houseware and storage equipment group, increased pre-tax profits by 15 per cent from £3.56m to £4.11m in the six months to June 30, on sales which rose by 17 per cent to £38.88m.

Mr John Wardle, chairman, said only a very small proportion of the profits rise was due to acquisitions, of which the full benefit would be seen next year and thereafter.

Mr Wardle said: "Despite conflicting evidence as to the strength of the apparent recovery and the dubious optimism very naturally shown by official pronouncements, life continues to be very difficult at the sharp end of manufacturing industry."

"It is only because of the very heavy investment in technology over the last five years that we have managed to mitigate the intense pressures on margins that have increased rather than relaxed."

Earnings per share grew by 15 per cent to 3p (2.6p). The interim dividend rose by 10 per cent to 1p (adjusted 0.91p).

## Redrow's 45% advance confirms housing recovery

By Christopher Price

The continuing recovery among UK housebuilders was confirmed yesterday when Redrow Group, which came to the market earlier this year, reported annual pre-tax profits 45 per cent ahead at £19.2m, against £13.2m.

However, Mr Steve Morgan, chairman, said it was too early to forecast a sustained recovery. "Trading conditions are fairly neutral at the moment. The house price rises we saw earlier in the year have subsided, but so too have some of the inflationary cost pressures."

Turnover increased 45 per cent to £183.3m (£129.8m), including £2.8m (£2m) from discontinued activities. Earnings per share rose from 5.1p to 8p. An initial dividend of 1.5p is proposed.

The pre-tax figure was struck after a £3.1m (£600,000) charge for the leisure division, which was sold to Mr Morgan prior to flotation, and a £1m investment profit.

The number of completed

homes rose 61 per cent to 2,038, which included a first contribution of 451 from the group's new south east of England division, the former Costain Homes business, bought in July 1993. The purchase marked the company's return to the south east. Mr Morgan said the region remained a priority for expansion, as witnessed by the recent purchase of Gudgeon Homes for £4.6m.

He added that the company was also considering a move into Scotland, the only area of the UK where it had no presence. First-time buyer incentives, particularly in the south east, meant the average house price declined from £88,000 to £82,400. However, Mr Morgan said that he expected prices to recover this year, although it was too early to make a firm prediction.

On turnover of £168m (£111m) the home division reported operating profits of £22.3m (£13.3m). The land bank rose from 5,000 to 7,100 plots, which was 79 per cent higher in value

terms at £98.7m. Although land prices had risen during the year, the company had managed to secure most of its purchases at below market prices.

Turnover in the construction business rose 45 per cent to £15.8m, although operating profits halved to £100,000 and the operating margin fell from 1.9 per cent to 0.6 per cent.

With trading conditions continuing to be tough, the company was taking steps to rationalise the division.

## COMMENT

Good first year results from Redrow come at a time when many investors, with an eye on higher interest rate expectations, are reducing their weighting in the construction and building sectors. Forecasts for the current year have been shaved back to about £28m, giving an earnings of 9.5p and a p/e of about 13. This is slightly ahead of the market and a 10 per cent premium to the sector and higher than the likes of Bryant and Wilson Bowden, both of which have track records.

## Discounting helps T&S to £7m

By Peter Pearce

T&S Stores, the confectionery, tobacco and news retailer and convenience store operator, lifted pre-tax profits by 3 per cent from £6.79m to £7.02m in the 26 weeks to July 2.

Operating profits, before losses from business disposals of £212,000 (£88,000 profit) grew more strongly. They showed an 11 per cent increase to £7.62m (£6.85m).

Turnover was 17 per cent ahead at £201m (£171m). The shares edged up 2p to close at 182p.

Mr Kevin Threlfall, chairman, said he was "happy" with the results. "They were achieved in a mature market and in spite of declines in cigarette volumes."

He said that although the UK confectionery market was up 2 per cent over last time, the grocery market was "flat or slightly down", and the news market was down in the wake of the price war in newspapers



Kevin Threlfall: happy with results achieved in a mature market

and magazines. In February the group bought the 74-store Gibbs Newsagents chain for £7.1m including expenses and in

March it acquired 23 Macs convenience stores for a total of £6m.

These contributed £399,000 to profits and £10.7m to turnover.

By division, Supercligs, the core high-street "deep discount" chain, raised profits 22 per cent to £2.96m on turnover up 5 per cent to £27m.

The rise was fuelled by multi-buy discounts and discounts on everything in the stores - even news in 125 of the 217 stores.

Average branch profits rose 18 per cent.

Profits in the 336-strong CTNs chain advanced by 20 per cent to £3.97m, mostly as a result of the Gibbs acquisition.

Turnover grew 24 per cent to £83.3m, with like-for-like sales edging up 3 per cent.

The C stores format showed the strongest organic gains. Here, profits rose by 26 per cent to £3m with only a small contribution from Macs. Turnover was 36 per cent ahead at £50.7m. Like for like sales rose 9 per cent. Ten extra stores were opened.

The interim goes up to 2.6p (2.5p), payable from earnings of 7.27p (7.06p) per share.

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## Flextech obtains part in original cable drama

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## COMMODITIES AND AGRICULTURE

## Swedish group lifts newsprint prices 20%

By Alison Maitland

Stora of Sweden, Europe's biggest pulp and paper group, will raise prices of newsprint by 20 per cent next year following sharp increases in pulp prices and a recovery in European demand for paper.

Mr Lars-Ake Helgesson, president and chief executive officer, told analysts in London that the company had achieved an increase of only 3 per cent this year. Even after a further 20 per cent increase, "there will still be some way to go to reach the level of the late 1980s," he said.

Newsprint prices have lagged behind increases for pulp and other types of paper because negotiations with customers take place only once a year. Mr Helgesson said prices had fallen by about 30 per cent

during the severe cyclical downturn from which the industry has been rebounding this year.

The Stora increase is in line with that proposed by other Nordic paper groups.

Mr Helgesson declined to say whether Stora would increase pulp prices again, after a series of price cuts by 8 per cent to \$700 a tonne this year.

But he said the fact that spot prices for pulp were higher than "regular" prices pointed to the likelihood of further increases. Spot prices were consistently lower during the downturn.

The latest rise in Nordic pulp prices earlier this month was caused by growing shortages of wood and a huge increase in demand for fine paper.

Mr Helgesson said non-inte-

grated suppliers of fine paper in Europe "will obviously suffer as [pulp] prices go up," but added: "They've been able to put through price increases faster than I expected."

Stora has also just announced increases of 10 and 20 per cent for coated and uncoated magazine paper, following 8 to 12 per cent rises for fine paper. Despite this, he said, "our average prices are somewhat lower than in 1993."

The group would need to increase present capacity of 7m tonnes by at least 200,000 tonnes a year to hold its share if the market continued to grow by 3-4 per cent a year as predicted, Mr Helgesson said.

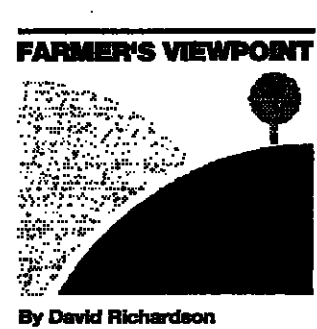
"We can do this either by building new machines or acquiring capacity and we will see a combination of that in the future," he said.

## Lush leaves belie disappointing sugar crop

Recent rain in the UK has encouraged foliage growth at the expense of the beets

An old farming neighbour used to say he enjoyed growing root crops like potatoes and sugar-beet because of the element of surprise. The value, he would explain - the tubers and the beets - was hidden in the soil and the farmer never quite knew what was there to harvest until the roots were lifted.

Implied in his tongue-in-cheek comment was that it was difficult to assess the yield of a root crop by looking at the leaves and foliage above ground level. The old man died many years ago but his words are as true today as they were over the 1994 sugar-beet crop seems likely to prove the point.



By David Richardson

Recent heavy rain (we have had close to 8 inches over our Norfolk farm within the last month in an area which has a long term average rainfall of 23 inches a year) has encouraged lush growth of sugar-beet leaves and a cursory inspection might suggest excellent crops. But dig some of the roots out of the land and it soon becomes evident that they are significantly smaller and lighter than usual.

The problem began back in the spring. Much of the land on which sugar-beet was to be grown remained wet and cold far longer than normal. Planting was inevitably delayed for a few weeks beyond the optimum date and even when the

seeds were in the ground growth was retarded by low temperatures. That meant that, in many cases, full leaf cover was not achieved by the critical date of the end of June. Then followed the July heat-wave, which dehydrated the plants to the extent, in worst cases, that leaves fell flat on to the baking soil and literally cooked in the sun. But not all the leaves were irreparably damaged. August rains perked them up and September downpours encouraged the plants to grow new green leaves.

Unfortunately some of the energy stored in the roots was needed to grow these leaves. So, instead of gaining weight and sugar from the radiated energy of autumn sunshine, as they usually do, they were obeying their natural imperative to survive and produce seed. Sunshine has been pretty sparse this autumn in any case and as regular samples taken

by the monopoly processor, British Sugar, have confirmed, this has resulted in an unexciting prospect for this year's crop.

The official figures show that average root weight on the September 20 was just 590g compared with 713g at the same time last year and a five-year average of 661g. Sugar content was equally disappointing. This year it was 16.5 per cent compared with 17.46 per cent last year and a five-year average of 17.32 per cent. The critical measurement of the weight of sugar per root showed that this year's level on September 20 was 97.9g, against 124.5g last year and a five-year average of 115.6g.

It is possible for these weights and sugar percentages to improve, especially if the weather for the rest of the autumn improves to be more like the seasonal normal. But the reality is that in spite of British Sugar's decision to delay the start of processing by almost two weeks in the hope that the roots will mature, this crop can now yield no better than average and it may well produce below that.

So, as most of Britain's sugar harvesting factories begin the harvesting "campaign" later this week, the farmers who supply them already know that returns will be down. For unlike potatoes, sugar beet is priced according to a formula

agreed by the European Union and there is no boost to the market value if there is a shortfall in production. That, anyway, is the case with those roots produced within so-called "A" and "B" quota tonnages - the proportion of the crop grown on each farm that enjoys a guaranteed price.

If a UK farmer grows more than his A and B entitlement the excess is called "C" sugar and this has to be disposed of on world markets for whatever it will fetch. This year, according to some sugar pundits who see further tightening of world stocks, C sugar is likely to be worth about £20 a tonne delivered to factories. That compares with £25 for A and B quota beet, but, given that most production costs are covered by the A and B element, it can still provide a worthwhile additional profit to the grower.

But, short of a weather miracle over the next few months, there will be little C sugar for growers. That is bad news for growers and for British Sugar, as the EU quota regulation restricts the UK sugar beet industry to producing less than half of domestic demand. This means that the rest of the sugar consumed in Britain has to be imported - mostly from African, Caribbean and Pacific sugar cane-producing countries under the terms of an agreement entered into when Britain joined the European

Community in 1973. But increasing amounts are now coming in from other EU member states which have beet production quotas massively higher than their own domestic demand.

Needless to say this has annoyed British sugar beet growers and processors for many years. That annoyance seems set to intensify over coming weeks as EU sugar quotas are renegotiated in Brussels for the next five years. For while they recognise that the EU sugar surplus of some 30 per cent in years of optimum production must be reduced, they resent the suggestion that Britain's already inadequate quota should be reduced at all. Indeed in a reallocation there is a strong case for the UK quota to be increased.

Moreover, campaigns have been launched by beet growers, the National Farmers' Union, British Sugar and a farming magazine to try to ensure that the new minister of agriculture, Mr William Waldegrave, defends and prosecutes the British case in Brussels.

In spite of poor prospects for my own and other farmers' crops this year, sugar beet remains of vital economic, rotational and environmental importance on many UK farms. I very much hope the campaigns are successful.

## US producer says aluminium demand exceeds expectations

By Kenneth Gooding, Mining Correspondent

The aluminium industry is enjoying a time of extraordinary demand growth, according to Mr Lloyd O'Carroll, corporate economist at Reynolds Metals, the second-largest US aluminium group. He suggests that western world consumption is set to rise by 7 per cent in 1994 to 18.7m tonnes.

Physical aluminium is being sold at very high premiums to London Metal Exchange prices nearly everywhere in the world. "This tells me that the physical market is pulling the LME, rather than the LME pushing the market," he adds.

Mr O'Carroll says that European demand is causing the greatest surprises. Orders for flat rolled aluminium are up 20 per cent from last year's depressed levels and orders for extrusions are up 10 per cent

This could easily translate into a 5 per cent rise in primary aluminium consumption in Europe this year.

In Japan, which like Europe was expected to provide only weak or flat demand for this year, the recovery in aluminium sales growth is proving faster than in the previous two cyclical economic recoveries. The underlying trend is very strong but the Japanese, conscious that they are the world's biggest purchasers of the metal, "are going out of their way so as not to sound too optimistic".

For the US, where deliveries of aluminium rose by 11 per cent in the first half compared with a reasonably buoyant first six months in 1993, Mr O'Carroll is predicting 10 per cent growth in demand for the full year to 7.94m tonnes.

He says aluminium sales in the US are likely to slow now

because the country is past the mid-point in the latest macro-economic cycle. But, with Europe and Japan just starting their recoveries, the aluminium market can look forward to strong world wide growth for the next three to five years.

Mr O'Carroll's analysis puts western aluminium demand growth at an annual 3 per cent to 5 per cent.

Aluminium stocks are likely to drop by 500,000 tonnes this year and by nearly 1.5m tonnes in 1995.

Russian supply remains an enigma, says Mr O'Carroll. In 1993 aluminium exports from Russia probably were close to 2m tonnes. However, if Russia cut output by 300,000 tonnes, as part of its contribution to the recent trade agreement between aluminium producing countries, it was likely that Russian exports would be flat or down a little next year.

## MARKET REPORT

## Coffee futures rally as Brazilian drought continues

COFFEE futures closed higher on the London Commodity Exchange yesterday, having rallied after a Brazilian official suggested that continuing drought meant that his country's 1995-96 coffee crop would be even lower than the 15m bags (50kg) to which it was estimated to have been reduced by frosts in June and July.

The November position ended at \$4,060 a tonne, up \$13

from Friday but \$16 below the day's high.

"We are very worried," said Mr Frederico Robalinho, secretary at the Brazilian trade and industry ministry. "The drought hasn't stopped. We have to wait for the rain to arrive. We are expecting rain every day." He was speaking to reporters during a break in a meeting of the International Coffee Organisation in London.

At the London Metal

Exchange base metals prices continued to drift lower in afternoon trading after an earlier spike in the COPPER market to a fresh 26-month high of \$2,570 a tonne, for delivery in three months, met profit-taking and resistance. The price closed at \$2,561.75, down \$3.75 on the day and lost further ground in after hours trading.

Dealers suggested that copper was still poised to head higher, though it would have

to break resistance around \$2,575 to spark a move towards \$2,600 a tonne.

ALUMINIUM prices remained under pressure from trade selling, though technical support and speculative buying appeared near \$1,600 a tonne for three months metal, which closed at \$1,607.50, down \$24.

NICKEL remained boxed in a narrow range, closing \$30 lower at \$6,527.50 a tonne.

Precious metals turned

firmer in Europe during the afternoon after a bout of short-selling ahead of the New York opening took markets lower.

GOLD closed at \$385.95 a troy ounce, down just 5 cents and well off the day's low. Weekend news that Britain was to propose IMF gold sales to help ease poor-nation debt sparked short-selling in the early afternoon.

Compiled from Reuters

## COMMODITIES PRICES

## BASE METALS

## LONDON METAL EXCHANGE

(Prices from Ararat Metals Ltd Trading)

## ALUMINIUM, 99.7 PURITY (\$ per tonne)

Close 1908-9 1601-2

Previous 1619/1001

AM Official 1598-87 1607-5-0

Kerb close 1607-5

Open int. 248,211

Total daily turnover 48,804

## ALUMINIUM ALLOY (\$ per tonne)

Close 1648-58 1655-70

Previous 1650-80

AM Official 1648-58 1655-70

Kerb close 1655-70

Open int. 3,008

Total daily turnover 609

## LEAD (\$ per tonne)

Close 818.5-18.5 830-32

Previous 825.5-22.5

AM Official 822-23 835-37

Kerb close 835-37

Open int. 41,297

Total daily turnover 7,820

## NICKEL (\$ per tonne)

Close 6425-30 6525-30

Previous 6445-35 6545-35

AM Official 6425-30 6525-30

Kerb close 6525-30

Open int. 30,038

Total daily turnover 60,038

## TIN (\$ per tonne)

Close 5377-52 5465-60

Previous 5405-15 5485-90

AM Official 5405-15 5485-90

Kerb close 5485-90

Open int. 16,728

Total daily turnover 7,304

## ZINC, special high grade (\$ per tonne)

Close 1021.5-22.5 1044.5-45.0

Previous 1022.5-23.5 1045-46

AM Official 1024-25 1048-49

Kerb close 1048-49

Open int. 97,801

Total daily turnover 25,482

## COPPER, grade A (\$ per tonne)

Close 2550-54 2561.5-62.0

Previous 2555-59 2567-65

AM Official 2557-60 2569-75

Kerb close 2569-75

Open int. 216,848

Total daily turnover 76,394

## LME AM Official US rate: 1.5782

LME Closing US rate: 1.5791

Spot: 1.5743 1.5723 1.5723 1.5723 1.5723

## HIGH GRADE COPPER (COMEX)

Close 127.80 128.00 127.80 127.80

Oct 121.25 121.10 121.10 121.10

Nov 119.00 118.75 118.75 118.75

Dec 117.35 117.10 117.10 117.10

Jan 116.70 116.45 116.45 116.45

Total 81,132 8,388

## PRECIOUS METALS

## LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

## Gold (Troy oz.)

Close 395.70-396.20 395.70

Opening 395.50-396.00 395.50

Mining fix 250.745

Afternoon fix 251.385

Day's High 395.30-395.80

Day's Low 394.50-395.00

Previous close 395.75-396.25

## Leads (LME Gold Lending Rate) (No US\$)

1 month 4.51 6 months 4.51

2 months 4.55 12 months 4.51

3 months 4.62

## Silver fix

Spot 357.15 US \$ equiv.

3 months 394.00 6 months 394.00

6 months 394.00 12 months 394.00

1 year 393.95 2 years 393.95

Gold/Gold 395.70-396.20

Maple Leaf 408.75-409.30

New Sovereign 92.95 59-61

## Precious Metals continued

## GOLD COMEX (100 Troy oz.; \$/troy oz.)

Sett. Day's price change High Low Open Int. Vol.

Sep 394.3 -1.8 - 30 -

Oct 394.5 -1.8 398.4 394.4 5,150 381

Nov 393.1 -1.0 397.3 392.1 1,014 10

Dec 397.8 -1.8 400.0 397.7 105,989 32,284

Jan 401.2 -1.3 403.1 401.0 15,978 2,815

Feb 404.7 -1.8 406.5 403.3 7,212 8

Mar 404.7 -1.8 406.5 403.3 7,212 8

Total 176,595 37,187

## PLATINUM NYMEX (50 Troy oz.; \$/troy oz.)

Sett. Day's price change High Low Open Int. Vol.

Sep 418.3 -3.7 423.5 417.8 5,421 2,823

Oct 422.2 -3.5 426.3 420.0 12,541 2,423

Nov 428.4 -3.6 432.5 424.8 2,491 85

Dec 428.9 -3.8 - 468 10

Jan 428.6 -3.6 - 220 70

Total 24,347 6,591

## PALLADIUM NYMEX (100 Troy oz.; \$/troy oz.)

Sett. Day's price change High Low Open Int. Vol.

Sep 154.50 -1.70 157.75 154.80 32 2

Oct 156.50 -1.70 157.75 156.00 5,305 389

Nov 157.00 -1.70 158.00 157.50 1,184 153

Dec 158.00 -1.00 - 152 50

Total 6,673 644

## SILVER COMEX (100 Troy oz.; \$/troy oz.)

Sett. Day's price change High Low Open Int. Vol.

Sep 362.2 -5.4 368.0 354.0 328 44

Oct 363.5 -5.4 - 8 -

Nov 367.2 -5.4 - 91,995 18,721

Dec 367.2 -5.4 - 46 4

Jan 369.7 -5.8 369.0 368.0 10,329 1,428

Feb 375.7 -5.8 381.5 375.5 4,445 22

Total 118,881 21,368

## ENERGY

## CRUDE OIL NYMEX (42,000 US gal.; \$/barrel)

Sett. Day's price change High Low Open Int. Vol.

Sep 17.88 +0.08 17.95 17.73 90,210 36,944

Oct 18.22 +0.10 18.37 18.05 21,746 4,216

Nov 18.13 +0.07 18.18 17.98 42,148 8,514

Dec 18.18 +0.10 18.18 18.05 21,224 2,508

Jan 18.10 - 18.10 18.05 17,654 1,837

Feb 18.14 +0.03 18.14 18.08 13,887 2,850

Total 384,091 63,867

## CRUDE OIL IPE (\$/barrel)

Sett. Day's price change High Low Open Int. Vol.

Sep 18.77 +0.11 18.78 18.58 88,824 18,874

Oct 19.18 +0.10 19.27 18.97 26,106 6,828

Nov 19.02 +0.07 19.02 18.75 12,243 2,178

Dec 19.08 +0.04 19.08 18.70 8,723 908

Jan 19.11 +0.07 19.12 18.71 7,287 758

Feb 19.08 +0.08 19.08 18.72 3,200 2,815

Total 144,821 18,599

## HEATING OIL NYMEX (42,000 US gal.; \$/barrel)

Sett. Day's price change High Low Open Int. Vol.

Sep 48.50 +0.25 48.55 48.30 50,823 13,111

Oct 49.00 +0.21 49.00 48.70 20,857 7,387

Nov 49.03 +0.11 49.03 48.70 30,750 5,214

Dec 49.10 +0.11 49.10 48.75 28,874 3,384

Jan 49.10 +0.11 49.10 48.75 28,874 3,384

Feb 49.10 +0.11 49.10 48.75 28,874 3,384

Total 177,140 35,868

## GAS OIL IPE (\$/barrel)

Sett. Day's price change High Low Open Int. Vol.

Sep 15.75 +0.03 15.78 15.55 15,343 5,032

Oct 15.80 +0.03 15.80 15.55 15,343 5,032

Nov 15.80 +0.03 15.80 15.55 15,343 5,032

Dec 15.80 +0.03 15.80 15.55 15,343 5,032

Jan 15.80 +0.03 15.80 15.55 15,343 5,032

Feb 15.80 +0.03 15.80 15.55 15,343 5,032

Total 75,359 17,699

## GRAINS AND OIL SEEDS

## WHEAT LCE (\$/cwt)

Sett. Day's price change High Low Open Int. Vol.

Sep 108.25 - 108.50 108.10 108.25 2,482 25

Oct 108.45 +0.10 108.60 108.25 2,482 25

Nov 108.10 +0.10 108.25 107.75 2,482 25

Dec 112.45 +0.15 112.60 112.45 1,513 10

Jan 114.30 +0.20 - 227 -

Total 7,222 88

## WHEAT CBT (5,000 bu m/c; cents/bu)

Sett. Day's price change High Low Open Int. Vol.

Sep 398.0 - 398.4 398.0 398.0 15,831

Oct 398.0 - 398.4 398.0 398.0 15,831

Nov 398.0 - 398.4 398.0 398.0 15,831

Dec 398.0 - 398.4 398.0 398.0 15,831

Jan 398.0 - 398.4 398.0 398.0 15,831

Feb 398.0 - 398.4 398.0 398.0 15,831

Total 7,222 88

## MAIZE CBT (5,000 bu m/c; cents/bu)

Sett. Day's price change High Low Open Int. Vol.

Sep 216.0 - 216.4 216.0 216.0 1,513

Oct 216.0 - 216.4 216.0 216.0 1,513

Nov 216.0 - 216.4 216.0 216.0 1,513

Dec 216.0 - 216.4 216.0 216.0 1,513

Jan 216.0 - 216.4 216.0 216.0 1,513

Feb 216.0 - 216.4 216.0 216.0 1,513

Total 7,222 88

## BARLEY LCE (\$/cwt)

Sett. Day's price change High Low Open Int. Vol.

Sep 103.50 +0.10 103.65 103.50 482 5

Oct 103.50 +0.10 103.65 103.50 482 5

Nov 103.50 +0.10 103.65 103.50 482 5

Dec 103.50 +0.10 103.65 103.50 482 5

Jan 103.50 +0.10 103.65 103.50 482 5

Feb 103.50 +0.10 103.65 103.50 482 5

Total 1,486 5

## SOYABEANS CBT (5,000 bu m/c; cents/bu)

Sett. Day's price change High Low Open Int. Vol.

Sep 56.42 - 56.50 56.42 56.42 1,513

Oct 56.42 - 56.50 56.42 56.42 1,513

Nov 56.42 - 56.50 56.42 56.42 1,513

Dec 56.42 - 56.50 56.42 56.42 1,513

Jan 56.42 - 56.50 56.42 56.42 1,513

Feb 56.42 - 56.50 56.42 56.42 1,513

Total 7,222 88

## SOYABEAN OIL CBT (100 tons; \$/tonne)

Sett. Day's price change High Low Open Int. Vol.

Sep 23.84 +0.26 23.85 23.80 1,021 4,488

Oct 23.84 +0.26 23.85 23.80 1,021 4,488

Nov 23.84 +0.26 23.85 23.80 1,021 4,488

Dec 23.84 +0.26 23.85 23.80 1,021 4,488

Jan 23.84 +0.26 23.85 23.80 1,021 4,488

Feb 23.84 +0.26 23.85 23.80 1,021 4,488

Total 7,222 88

## SOYABEAN MEAL CBT (100 tons; \$/tonne)

Sett. Day's price change High Low Open Int. Vol.

Sep 194.5 - 194.5 194.5 194.5 1,513

Oct 194.5 - 194.5 194.5 194.5 1,513

Nov 194.5 - 194.5 194.5 194.5 1,513

Dec 194.5 - 194.5 194.5 194.5 1,513

Jan 194.5 - 194.5 194.5 194.5 1,513

Feb 194.5 - 194.5 194.5 194.5 1,513

Total 7,222 88

## POTATOES LCE (\$/tonne)

Sett. Day's price change High Low Open Int. Vol.

Sep 150.0 - 150.0 150.0 150.0 1,513

Oct 150.0 - 150.0 150.0 150.0 1,513

Nov 150.0 - 150.0 150.0 150.0 1,513

Dec 150.0 - 150.0 150.0 150.0 1,513

Jan 150.0 - 150.0 150.0 150.0 1,513

Feb 150.0 - 150.0 150.0 150.0 1,513

Total 7,222 88

## FRESHEN (BIFREN) LCE (\$/tonne)

Sett. Day's price change High Low Open Int. Vol.

Sep 1820 - 1820 1820 1820 1,513

Oct 1820 - 1820 1820 1820 1,513

Nov 1820 - 1820 1820 1820 1,513

Dec 1820 - 1820 1820 1820 1,513

Jan 1820 - 1820 1820 1820 1,513

Feb



## LONDON STOCK EXCHANGE

## MARKET REPORT

## FT-SE 3,000 lost as selling of shares continues

By Terry Byland,  
UK Stock Market Editor

Renewed selling in the UK stock market yesterday drove the FT-SE 100-share index down to its first close below 3,000 since mid-July as fund managers backed away ahead of the meeting today of the Federal Reserve's Open Market Committee. Although views on the chances of a rise in US interest rates were divided, and London closed well above the worst after US bonds opened firmly, sentiment in equities remained negative.

Traders said that European funds had continued to switch out of UK equities and into bonds. S.G. Warburg, reducing its portfolio to eighting on international equities to neutral, from overweight, warned clients that some equity valuations

look "modestly stretched" and that markets may have underestimated the chances of interest rises in the final quarter of the year.

However, Warburg continues to favour "an overweight of equities" on a twelve month view, noting that equities can rise even when both interest rates and bond yields are moving higher.

Equities opened lower and were hit hard at mid-session by another sizeable sell programme, which took the Footsie 100 index down by more than 40 points to the day's low of 2,987.4.

Last week saw a series of equity sell programmes which, traders believe, resulted from portfolio deals by fund managers who unloaded equity stakes to market-makers who were then left with the problem of passing the stock on

with the story: "A Glaxo move to acquire Boots' drugs division would make much more sense," said one.

Boots' intention to hive off its drugs business has been discussed in the market for many months but Zeneva had not, until this week, been viewed as a potential bidder.

Zeneva itself has been considered by the market as a potential bidder and there has been talk around the City's trading desks of a merger between Zeneva and Wellcome.

Zeneva shares dropped 25 to 797p on turnover of 2.8m, while Boots was one of only a handful of FT-SE 100 stocks to make

progress on the day, finishing 4% higher at 530p, after touching 535p.

Shares in brewing, hotels and soft drinks company Bass fell sharply after a badly received trading statement from the group.

The slide started early in the day following the statement's release, and at the day's start the stock was down 18 before

steadying with the improving market to close a net 17 off at 523p after thin trade of 1.3m.

Market watchers were particularly concerned by the 0.8 per cent decline in beer volumes, along with the poor outlook on margins for beer. However, one analyst did say that trading in the soft drinks division was better than expected. Another analyst said simply: "Even the

meeting with the company was poor, with little there to find encouraging."

The utilities sector, traditionally safe havens during periods of extreme turbulence in equities, were given the roughest of rides in the market as a number of institutions were straight sellers of the "reps" or aggressive switchers, out of the "reps" and into the water stocks, a move advocated last week by Hoare Govett.

Dealers said there were no new stories behind the slide in the rears, other than that the sector's closed period is looming. Details of the flotation of the National Grid is not expected until the end of the

the purchase of 2.8m shares at 427p. Seaboard closed 7 lower at 420p.

Midlands Electricity was the worst casualty in the rears, the shares plummeting 35, or 4.5 per cent, to 765p. South Western dropped 24 to 745p. Northern Ireland Electricity was a lone good performer, closing 3 ahead at 385p.

British Petroleum edged higher, thanks to a buy note from S.G. Warburg and evidence of keen support from the US as Wall Street opened on a firm note. The shares settled 3 higher at 401p on 7.5m traded.

Hanson was the most heavily traded stock in the market, the shares fighting back after last Friday's Hoare Govett profits downgrade and closing a fraction ahead at 230p, with US institutions

said to have been aggressive buyers. Turnover topped 18m shares.

Royal Bank of Scotland was the pick of the banks sector, still responding to aggressive buying by Credit Lyonnais.

Lairds after the recent positive meeting with Mr Peter Wood, the chief executive of Direct Line, the REOS's insurance subsidiary. REOS shares closed 9 higher at 422p.

There was also a suggestion of substantial switching out of Abbey National and into REOS. Abbey slipped 7 to 283p.

Fears of a bitter price war among food retailers continued to cast a shadow over stocks in the sector. J. Sainsbury relinquished another 6 to 381p, as several brokers indicated a preference for its rival Tesco

## FT-SE-A All-Share Index

Turnover by volume in millions. Excluding: Initial market business and overseas turnover

1,000

1,000

1,000

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## Equity Shares Traded

Turnover by volume in millions. Excluding: Initial market business and overseas turnover

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## Reckitt rights not welcome

The timing, if not the substance, of the move by Reckitt & Colman, the household goods and pharmaceutical products group, to acquire L & F Household from Eastman Kodak, took the market by surprise and triggered a steep decline in Reckitt shares.

Reckitt stock was the FT-SE 100's worst performer, closing 43 off at the session's low of

555p, as the market reacted violently to the deeply discounted 220m cash call which accompanied the L & F Household purchase.

Talk that Reckitt was about to buy L & F Household has been in the market for around two months. In August, and before the latest steep slide in share prices, the market was full of stories that Reckitt was preparing to pay upwards of \$1.7bn for L & F.

One leading analyst described the proposed purchase of L & F as a "good strategic move" but said the market had not taken kindly to the rights issue. He professed concern, however, at Reckitt's

claim that the purchase will have insignificant impact on its earnings for 1995. "Insignificant" is taken as market code for earnings dilution," he said.

Drugs bid seen

Suggestions in the UK press over the weekend that Zeneva, the drugs group demerged from ICI last year, may be preparing a \$900m-plus bid for Boots' pharmaceutical division triggered a strong performance by the latter's shares but left those of Zeneva floundering.

Some of the market's drugs analysts were unimpressed

with the story: "A Glaxo move to acquire Boots' drugs division would make much more sense," said one.

Boots' intention to hive off its drugs business has been discussed in the market for many months but Zeneva had not, until this week, been viewed as a potential bidder.

Zeneva itself has been considered by the market as a potential bidder and there has been talk around the City's trading desks of a merger between Zeneva and Wellcome.

Zeneva shares dropped 25 to 797p on turnover of 2.8m, while Boots was one of only a handful of FT-SE 100 stocks to make

progress on the day, finishing 4% higher at 530p, after touching 535p.

Shares in brewing, hotels and soft drinks company Bass fell sharply after a badly received trading statement from the group.

The slide started early in the day following the statement's release, and at the day's start the stock was down 18 before



## INVESTMENT TRUSTS - Cont.

OTHER



## INVESTMENT TRUSTS - Cont.

Trust Name	Price	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	99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## MARKETS REPORT

## D-Mark softens

The D-Mark was weaker against the dollar, the pound and the Swiss franc yesterday as markets took over following electoral results in the state of Bavaria, writes Motoko Rich.

The failure of the Free Democrats, Chancellor Helmut Kohl's junior partner, to achieve the 5 per cent vote necessary for a place in the state parliament unsettled market expectations for the October 16 German federal poll.

Such nervousness allowed the dollar to rise against the D-Mark, while growing market acceptance of a likely compromise in the US-Japan trade talks also gave the US currency a boost against the yen.

In London the dollar finished at DM1.551, up from a Friday close of DM1.543. Against the yen, it closed at ¥98.70, up from ¥97.70.

Sterling was also firmer against the D-Mark, though slightly weaker against the dollar. Against the D-Mark, the pound closed at DM2.482 from DM2.438. Against the dollar, it finished in London at \$1.5743 from \$1.5708.

The lira made gains against the D-Mark in late trading as Prime Minister Silvio Berlusconi and leaders of his coalition parties reached an accord on the shape of Italy's 1995 deficit-cutting budget.

The Free Democratic party, the junior partner in Mr Kohl's government, only achieved 2.5 per cent of the Bavarian vote, far short of the 5 per cent needed to guarantee it a place in the state parliament.

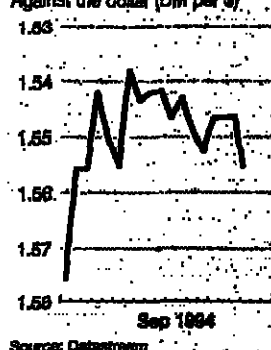
Markets were spooked by this result because it foreshadowed the federal poll next month, when a similar setback for the FDP could force Mr Kohl's Christian Democratic Union to forge a coalition with the Social Democratic party, a prospect the markets do not favour.

The D-Mark was generally softer against other European currencies. Against the Swiss franc, it closed in London at Sfr1.828 from Sfr1.831. Against the French franc, it finished at FF4.317 from FF4.319.

Mr Steve Hannah, economist at IBB, noted that most

## D-Mark

Against the dollar (DM per \$)



Source: Datastream

DM Per \$ in New York

Sep 26 - 1.5400 - 1.5700

1 spot - 1.5743 - 1.5744

3 mth - 1.5719 - 1.5744

1 yr - 1.5692 - 1.5925

national polls are showing the

FDP with 8.5 per cent support

for its bid to join the national

parliament. "So no one is pan-

icking yet," he said.

The weakness of the D-Mark

helped the dollar to turn in a

fairly strong performance.

Against the yen, it breached

the ¥98.50 level for the first

time in a week.

Although analysts were

reluctant to pinpoint any one

factor as the motivation for the

dollar's improvement, Mr Han-

nah said the markets were

beginning to realise that trade

negotiations between the US

and Japan do not hinge on this

Friday's deadline.

The markets are beginning

to realise that even if the Jap-

anese are named for engaging in

unfair practices in some areas

it would not necessarily mean

a wholesale trade war or that

the US will start talking the

dollar down," he said.

Today's meeting of the

FOMC, the policy-making arm

of the US Federal Reserve,

should provide most of the

focus for the foreign exchange

markets, as expectations are

divided on a possible interest

rate hike.

Sterling continued its firm-

ing trend against the D-Mark,

piercing the resistance level of

DM2.45 early in the day.

Although it has not yet consol-

idated its gains, analysts

believe it will move upwards.

## CURRENCIES AND MONEY

## POUND SPOT FORWARD AGAINST THE POUND

Country	Code	Close	Change	High	Low	Day's	One	Three	One	Bank
							month	month	month	of
							Rate	Rate	Rate	Rate
Europe	(Bch)	17.2282	-0.0089	218	354	17.2558	17.2558	17.2558	17.2558	17.2558
Australia	(AUS)	80.3778	-0.0018	985	157	80.4020	80.3778	80.3778	80.3778	80.3778
Belgium	(Bch)	8.6107	-0.0028	777	137	8.6402	8.6107	8.6107	8.6107	8.6107
Denmark	(DKK)	7.7228	-0.0039	145	311	7.8000	7.7228	7.7228	7.7228	7.7228
Finland	(FIM)	6.3543	-0.0027	611	674	6.3757	6.3543	6.3543	6.3543	6.3543
France	(FFr)	2.4682	-0.0012	321	478	2.4682	2.4682	2.4682	2.4682	2.4682
Germany	(DM)	57.3773	-0.0012	723	225	57.3773	57.3773	57.3773	57.3773	57.3773
Greece	(Grc)	1.0122	-0.0004	115	123	1.0122	1.0122	1.0122	1.0122	1.0122
Ireland	(Ir)	2.4682	-0.0012	321	478	2.4682	2.4682	2.4682	2.4682	2.4682
Italy	(Lit)	242.216	-0.0037	611	674	242.216	242.216	242.216	242.216	242.216
Japan	(Yen)	17.2282	-0.0089	218	354	17.2558	17.2558	17.2558	17.2558	17.2558
South Korea	(Won)	2.4682	-0.0012	321	478	2.4682	2.4682	2.4682	2.4682	2.4682
Netherlands	(Gld)	2.4682	-0.0012	321	478	2.4682	2.4682	2.4682	2.4682	2.4682
Norway	(Krk)	10.1719	-0.0012	126	216	10.1719	10.1719	10.1719	10.1719	10.1719
Portugal	(Esc)	242.216	-0.0037	611	674	242.216	242.216	242.216	242.216	242.216
Spain	(Pes)	242.216	-0.0037	611	674	242.216	242.216	242.216	242.216	242.216
Sweden	(Krn)	11.7300	-0.0012	126	216	11.7300	11.7300	11.7300	11.7300	11.7300
Switzerland	(Sfr)	2.0285	-0.0002	267	273	2.0285	2.0285	2.0285	2.0285	2.0285
UK	(Ster)	1.2831	-0.0004	628	638	1.2831	1.2831	1.2831	1.2831	1.2831
USA	(Dol)	0.351825	-0.0004	628	638	0.351825	0.351825	0.351825	0.351825	0.351825

Source: Reuters

The pound was boosted by a

coalition agreement in Italy

over the 1995 budget. Though

no details were revealed, the

tone of the announcement

suggested the government

intended to shape the budget

to cut the deficit.

Against the D-Mark, the lira

finished at L1006 from L1009,

and was trading as high as

L1004.5 after the close of the

London markets.

Canadian short term forward

interest rates fell against US

rates for the first time since

1984, demonstrating the mar-

ket's confidence in the Canadian

dollar.

Since the Quebec election,

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ratist cause, won by an un-

expectedly narrow margin, the

markets have been struggling

over the risk of Quebec's seces-

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boost to the Canadian dollar

and allowing the markets to

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The UK December short

sterling contract finished

unchanged at \$8.19, discount-

ing a short-term interest rate

of 8.81 per cent.

In the UK money markets,

the Bank of England provided

liquidity of \$561 after revising

its shortage forecast to \$550.

Overnight rates traded

between 2 and 5 per cent.

German call money was

quoted between 4.25 and 4.50

per cent.

OTHER CURRENCIES

Sep 26 - 171.01 - 171.24

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3 mth - 171.01 - 171.24

1 yr - 171.01 - 171.24

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## CROSS RATES AND DERIVATIVES







## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

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## AMERICA

## Dow on hold ahead of Fed rates decision

## Wall Street

US stocks struggled to find direction yesterday morning as investors awaited today's Federal Reserve policy-making session, writes Frank McCarty in New York.

By 1 pm, the Dow Jones Industrial Average was up 3.03 at 3,834.78, while the more broadly based Standard & Poor's 500 was a scant 0.20 higher at 459.87.

But the Nasdaq composite was down 4.59 to 752.57 on weakness in technology stocks; and the American SEI composite was off 1.44 at 453.79. Volume on the Big Board was moderate, with 145m shares exchanged by early afternoon.

After a week of volatility, trading settled into a more even tempo. The blue chip index meandered within a few points of its opening level throughout the morning, mirroring a lazy drift by bonds.

Few investors were willing to make big new commitments before it became clear whether the Fed would decide to raise interest rates immediately.

Yesterday's session brought a piece of evidence suggesting the economy was cooling. The National Association of Realtors said that sales of existing single-family homes had fallen by 1.5 per cent last month, a little more than analysts had forecast.

But the data had little impact on sentiment. Allied Signal added \$1 to \$34.40, but the gain was offset by United Technology, which dropped \$1.10 to \$61.10.

Philip Morris gained \$1 to \$99.75 after signalling its intention to resist more stringent restrictions on smoking in New York City.

In semiconductors, Micron

Technology shed \$1.10 to \$36 while Texas Instruments plunged 4%, or 6 per cent, to \$67. CS First Boston downgraded both stocks, citing weak demand for dynamic random access memory, or Dram computer chips.

On the Nasdaq, Oracle was off \$1.40 at \$42.10 while Lotus Development added \$1 to \$37.40. The two companies reached an agreement to integrate their database software products.

In banking, EquiCredit surged 4% to \$29.40 after Barnett Banks agreed to acquire the company. But Arbor National Holding plummeted 4% to \$15.00 on news of its agreement to merge with BankAmerica.

On the NYSE, BankAmerica 3% to \$45.75.

## Canada

Toronto was lower in thin mid-day dealings as investors responded to US interest rate worries. The TSE 300 composite fell 33.66 to 4,334.88.

Only one of the 14 sub-indices remained in positive territory at noon, with a 2.0 per cent decline in conglomerates leading losses. Canadian Pacific fell 0.9% to C\$27.50 amid concerns over the effect of higher rates on the group.

## Brazil

São Paulo edged down in light late morning trade amid concern over a report quoting the presidential candidate, Mr Fernando Henrique Cardoso, as saying that he saw possible government action to slow the inflow of foreign money into Brazil as positive. The Bovespa index was off 522 at 54,010 at 11:40 local time in turnover of R\$121.5m (\$141m).

## EUROPE

## Washington meeting worries weigh on bourses

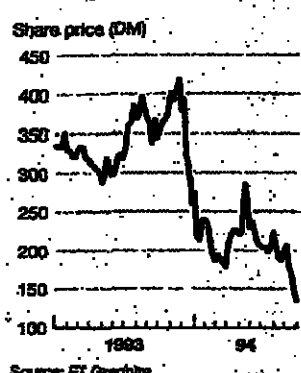
Worries about the outcome of today's Federal Open Market Committee meeting in Washington continued to weigh on senior bourses, writes Our Markets Staff.

FRANKFURT blamed the FOMC prospect as the Dax index dropped 21.45 to 2,068.87 on the session, but some brokers injected political apprehension as the Dax index fell further to 2,057.83 by the end of the afternoon, down 1.9 per cent from last Friday's post-bourse close.

Turnover fell from DM5.7bn to DM5.3bn. On the session, Daimler lost DM13.50 at DM77.2 after last Friday's Standard & Poor's downgrading of its debt; and Deutsche Bank dropped DM4.50 to DM169.50 on US selling on its involvement with Metallgesellschaft as one of the embattled trading group's major banking shareholders.

Metallgesellschaft fell DM15.80 to DM133.20 and hit a new 1994 intraday low of DM122 after hours before closing the afternoon at DM130, as stories circulated that Deutsche Bank and other major banking shareholders

## Metallgesellschaft



Source: FT Graphix

were reducing their positions. The afternoon also brought a reaction from Siemens, down DM16.50 to DM547.70 at the close of this trading, after a magazine article said the giant electricals group would report slightly lower profits this year. Siemens said the report contained errors.

PARIS fielded a number of corporate features as the general market fell on interest rate worries in a gloomy opening to the new account. The CAC 40 index lost 24.58, or 1.3

## FT-SE Actuaries Share Indices

Index	Open	High	Low	Close
FT-SE Actuaries 100	1346.35	1346.98	1344.41	1341.73
FT-SE Actuaries 200	1367.01	1368.05	1365.25	1363.02
FT-SE Actuaries 300	1387.01	1388.05	1385.25	1383.02

per cent, at 1,902.72 after a low of 1,895.63 for the day.

Turnover was FF2.6bn. The best features were in leaders such as Peugeot, down just FF2 to FF793 before news after market hours of a return to profitability, and Societe Generale, expected to reveal higher profits today and FF1 up at FF636.

At the more painful end of the performance charts, Euro-tunnel dropped FF1.45, or 6.4 per cent, to FF21.10 on reports of water leaks in the tunnel, although the company said this was a normal occurrence; and Credit Lyonnais, opening strongly at FF415 on hopes of state aid, fell to FF378 before closing FF330 lower at FF387 as those hopes were cooled. The bank will produce its

delayed first-half results this afternoon.

AMSTERDAM was lower on interest rate worries and the AEX index closed 3.14 down at 400.47. Unilever bucked the trend, however, picking up 60 cents at F119.40 amid optimism over forthcoming third-quarter results.

A 30-cent advance in Aegon to F101.70 was attributed to strong interest in its call options on the ROE. ABN-Amro fell F11.30 to F17 and ING 90 cents to F174.80.

KLM ended 20 cents higher at F147.60 after its deputy chairman said the airline would seek to strengthen existing co-operation arrangements. Heineken dipped F1.70 to F126.30. Kleinwort Benson, which continues to rate the

stock a buy after the higher than expected first-half results, said the brewer was its preferred defensive play, along with CSM.

ZURICH finished lower in thin volume, the SMI index losing 23.0 at 2,586.1, with many investors unwilling to commit themselves.

Roche certificates set the tone with a SF70 loss to SF75.955 while Nestle gave up SF14 to SF11.191, and Sulzer fell SF20 to SF890 ahead of today's first-half results.

Financials were broadly easier. Swiss Re fell SF4 to SF5.67. Among the banks, SBC lost SF5 to SF3.67 and SBC Holding fell SF9 to SF5.63.

MILAN edged ahead on a day of highly charged political debate and the Comit index rose 3.95 to 672.14 as Friday's deadline approached for the government to present its budget plans.

However, Mr John Stewart at InterEuropa Sim in Milan noted that business was light, with continuing delays and the postponement of yesterday morning's meeting between the government and unions on pensions reform adding to

investors' worries about the eventual effectiveness of the budget proposals.

The small gain in the index was largely attributed to advances in telecom stocks, particularly that of Stet, which rose L114 to L4,621 on arbitrage activity ahead of the expiration of the warrants on its savings shares. Telecom Italia gained L101 at L4,325: the group is expected to report buoyant first-half figures today.

Six-month results continued to feature. Pirelli rose to a high of L2,660 in reply to Friday's better than expected first-half figures before ending L27 down at L2,610. Fiat was off L9 at L6,692, after touching L6,745, ahead of Thursday's figures.

MADRID reversed an early improvement to close with the general index 1.55 easier at 297.17.

Repsol was one of the few winners on the day, gaining a token Pta10 at Pta3,825 on news that the equity offer forming the third stage of the oil major's privatisation could be delayed until next year.

Written and edited by William Cochrane and Michael Morgan

## ASIA PACIFIC

## Concerns over US policies inhibit general trading

## Tokyo

Stocks drifted lower in thin trading, with most participants sitting on the sidelines, writes Robert Patten in Tokyo.

The Nikkei 225 average eased 19.31 to 19,814.36 after a three-day weekend; Tokyo markets were closed on Friday for a Japanese national holiday.

Small early gains lifted the key index to a high of 19,922.4; the day's low was 19,780.5.

Decisions outscored advances by 526 to 467, with 193 issues unchanged. Volume fell to an estimated 250m shares from the 353.7m traded last Thursday. Most traders were cautious over foreign exchange movements. Adding to market uncertainty was the looming Friday deadline for the imposition of Super 301 trade sanctions by the US.

The capital-weighted Nikkei 200 index inched ahead 0.22 to 300.07, while first-section Topix stocks closed at 1,585.21, up 0.99 from Thursday.

The second section index receded 9.44 to 2,237.02, with an estimated 7.2m shares changing hands. Japan Telecom, widely regarded as a market indicator ahead of the upcoming listing of Japan Tobacco on October 27, continued to decline. Listed on the second section, the stock fell ¥100.00 to ¥4,050, its lowest value since listing on September 6.

DDI, another second-section telecom stock, dipped ¥8.00 to ¥781.00, but Nippon Telegraph and Telephone remained flat at ¥885.00.

In London, the ISE/Nikkei 50 index finished 0.89 firmer at 1,297.37.

A Sunday newspaper report that electronic parts maker Hosiden will spend ¥60m to

build a large thin-film transistor liquid crystal display (TFT-LCD) plant in Kobe, western Japan, raised Hosiden shares ¥30 to ¥2,280. Hosiden supplies all LCD cockpit display panels used in Boeing 777 aircraft.

Other high-technology issues lost ground. Toshiba slipped ¥4 to ¥747, NEC was ¥10 softer at ¥1,170 and Oki Electric shed ¥20 to ¥760.

In Osaka the OSE average gained 28.13 points at 22,101.53 in volume of 60.8m shares.

## Roundup

Worries about the outlook for interest rates after today's US Federal Open Market Committee meeting were an inhibition to trading in some Pacific Rim markets.

Bombay opened as normal but brokers refused to transact business, in sympathy with 10 brokers whose offices were gutted in the fire on Friday. The exchange is expected to reopen today.

SEOUL made headway after Friday's consolidation to end at another all-time high as early strength in financial and banking shares spread to other issues. However, profit-taking in primary blue chips limited the advance.

The composite index closed 7.71 stronger at 1,045.12, just off a record intraday peak of 1,047.34 set in the morning.

The sub-group index for banks rose 11.26, or 1.6 per cent, to a fresh high for the year of 696.06, but profit-taking was seen in last week's best performers.

Samsung slipped Won1,900 to Won138,100 and Posco declined by Won500 to Won56,600.

TAIPEI put on 1.5 per cent amid late demand for banking stocks. The weighted index finished 103.74 higher at 7,025.76, although turnover was slow at T\$43.4bn.

Financials reversed early falls and supported the market. Chang Hwa Bank put on T\$8 at T\$208, First Commercial Bank T\$9 at T\$205 and Hwa Nan Bank T\$9 at T\$229.

Closed-end funds also attracted buying on hopes that they would be converted into open-end funds soon. Kwang Hua Fortune, the most active issue, climbed 20 cents to T\$13.15.

HONG KONG saw modest gains, although the market remained overshadowed by concern about the outlook for US interest rates.

The Hang Seng index was up 11.18 at 9,843.63 after an early high of 9,700.92, as turnover improved to HK\$3.4bn from Friday's HK\$3.07bn.

Among the seven stocks which will enter the Hang Seng index later this year and

early in 1995, Sino Land moved forward 45 cents to HK\$8.75 and Oriental Press put on 40 cents at HK\$5.50.

Stocks which had been widely expected to join the main index, but failed to make last Friday's list, fell sharply. First Pacific dropped 47.5 cents, or 3.4 per cent, to HK\$5.15.

Guoco Group lost HK\$1.60, or 4.1 per cent, at HK\$37.60 and Henderson Investment shed 37.5 cents, or 5.1 per cent, to HK\$6.975.

Lai Sun and Winsor both declined steeply after the announcement that they would be removed from the index, following their underperformance of the market. Lai Sun retreated HK\$1.10, or 6.9 per cent, to HK\$14.90.

On the opposite side, shipping company IMC picked up 42.5 cents, or 7.7 per cent, to HK\$5.95 on institutional buy-

ing following signs of recovery in the industry.

SYDNEY edged forward in quiet conditions ahead of today's FOMC meeting. The All Ordinaries index closed 2.3 higher at 2,030.0 as rises by golds and some industrial stocks offset falls in finance and some resource sectors.

WELLINGTON eased, with the threat of higher interest rates acting as a disincentive. The NZSE-40 Capital index finished 4.73 off at 2,075.80 in very low turnover of NZ\$18.48m.

SINGAPORE was softer, although prices showed some resilience and the Straits Times Industrial index closed only 2.24 down at 2,399.81.

Over-the-counter Malaysian shares were dampened by heavy profit-taking in the afternoon, after an unexpectedly strong start.

Yeo Hap Seng Malaysia lost 45 cents at S\$8.45 after the Malaysian authorities' move to

calm recent feverish speculation by making it a "designated security".

KUALA LUMPUR was worried about interest rates and the composite index gave up 13.14 at 1,157.18.

Against the trend, Econstates and Actacorp, which resumed trading after recent suspensions, were sharply higher. Econstates rose M\$2.65, or 67.5 per cent, to M\$6.55 on the purchase of a port developer which has been awarded the privatised Klang West Port.

Actacorp climbed M\$1.75, or 29.4 per cent, to M\$7.70 on news that a businessman has bought a 26.6 per cent stake.

MANILA was pulled down by declining blue chips, and the composite index lost 15.18 at 2,544.50. Heavy selling was seen in a number of issues as investors cashed in profits, including Metropolitan Bank & Trust, which fell 35 pesos, or 4.3 per cent, to 795 pesos.

## VIEWPOINT

The Commerzbank report on German business and finance 9/94

## Germany's capital goods producers raise their market share

The western German economy has moved out of recession, but in manufacturing the recovery has so far been very uneven. Early this year, the capital goods sector began to rebound; it should achieve growth of a good 3 per cent this year and 5 per cent in 1995. However, the industry is starting from a low base as production had plunged 16 per cent by the end of 1993, a much sharper decline than in previous recessions, rekindling fears that Germany had forfeited some of its international competitiveness.

On the other hand, while the drop in the consumer goods sector was in line with that registered during previous recessions, the outlook in this area of manufacturing remains lackluster. Output is likely to contract by 1.5 per cent in the current year and in 1995 will probably be barely sufficient to offset this decline.

Boost from foreign demand

On average, nearly half of western Germany's capital goods' output (including motor vehicles) has been sold abroad over the past ten years, compared with only a third of its consumer goods' production. Thus demand for capital goods is more sensitive to changes in the economic performance of other countries, which - together with the appreciation of the D-mark in 1992/93 - largely explains why German producers were so severely hit by the fall in foreign demand, the longest and sharpest ever.

In volume terms, orders from abroad were 19 per cent higher in the second quarter of 1994 than at their end-1992 lowpoint, but still 6 per cent below their pre-recession level.

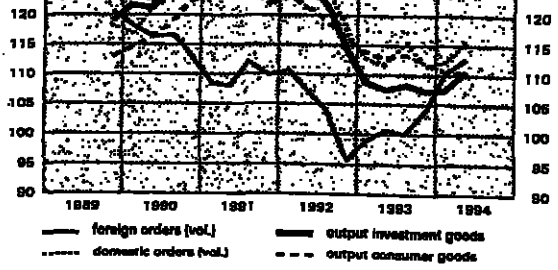
"The capital goods sector could well repeat its success during the eighties"

With private households' real disposable income down, domestic orders are lagging behind those from abroad in all sectors of the economy. As a result, the outlook for German consumer goods is fairly subdued. In addition, as the producers of consumer goods focus to a large degree on relatively unsophisticated products, they are more exposed to international competition than are their counterparts in the capital goods sector.

Despite the strength of the D-mark, foreign demand is now the driving force behind Germany's economic recovery. The continuing robust upswing in the U.S. and Britain, as well as the improved prospects for Western Europe, are boosting economic performance in western Germany.

In an effort to increase their efficiency, German firms have tackled the problem of costs. Savings have been achieved in a number of ways: companies have restructured, invested in rationalization measures, transferred production abroad, negotiated more moderate pay settlements and considerably trimmed their workforces. By the end of the second quarter, unit labor costs in western German manufacturing were down 8 per cent from their peak in early 1993, and as demand continues to pick up, they are likely to decrease further in 1995. German firms' earnings performance has improved markedly, albeit from a very low level. Indeed, having plummeted to a 25-year low in 1993, the manufacturing sector's profit margin should again be roughly in line with its average during the eighties next year.

terparts in the capital goods sector. In particular, they face a strong challenge from low-wage countries in Asia and, increasingly, in Central and Eastern Europe as well. The current upturn, which could easily last until the end of the century, presents manufacturers of capital goods with an opportunity to achieve growth rates comparable to those seen during the long upswing of the 1980s, when output in the sector rose by 4 per cent. Thanks not least to the additional demand created by the modernization of industry in Central and Eastern Europe, this should be feasible.



## MARKETS IN PERSPECTIVE

	% change in local currency	% change sterling	% change US \$
	1 Week	4 Weeks	1 Year
Austria	-0.95	-3.45	+5.69
Belgium	-2.06	-5.36	+5.23
Denmark	-1.53	-3.27	+5.21
Finland	-2.57	-0.91	+5.09
France	-0.60	-6.19	+4.16
Germany	-1.34	-3.04	+6.61
Ireland	-2.57	-0.77	+17.20
Italy	-0.18	-2.16	+11.95
Netherlands	-1.92	-4.22	+5.23
Norway	-0.92	-7.49	+5.23
Spain	-0.57	-3.74	+17.72
Sweden	-1.41	-1.98	+10.88
Switzerland	+0.45	+0.71	+8.86
UK	-1.27	-7.23	+0.95
EUROPE	-1.02	-4.79	+5.69
Australia	-2.03	-2.99	+5.95
Hong Kong	-3.12	+3.91	+31.88
Japan	+0.88	-2.89	-1.82
Malaysia	-0.52	-0.52	-0.52
New Zealand	-1.45	+0.96	+11.20
Singapore	+0.41	+1.68	+18.81
Canada	-0.82	+1.80	+15.82
USA	-2.38	-2.99	+0.20
Mexico	+0.89	+1.68	+6.25
South Africa	-1.27	-1.89	+58.43
WORLD INDEX	-1.05	-3.01	+2.48

† Based on September 23, 1994. Copyright, The Financial Times Limited, October 2, 1994. All rights reserved.

The world's equity markets accelerated their downturn last week, the FT-Actuaries World index losing 1.05 per cent in local currency terms against a decline of 0.37 per cent in the week before.

Mr Robin Griffiths, technical analyst at James Capel, noted a weak start when the US bond market topped out at the start of this year, it not only cracked all other bond markets, but brought most equity markets down as well. Now, he said, the process is being repeated: "After three months of stability, bond prices are headed down again in a second dip that will take equity prices with it."

Hong Kong underperformed for the second week in succession. Last week's fall was directly linked to growing fears of an interest rate rise in the US, since the US and Hong Kong dollars are linked, but investors were also inhibited by the withdrawal of the five Jardine group companies from the local Hang Seng index, after their imminent delisting from the exchange.

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. In conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS											
FRIDAY SEPTEMBER 25 1994											
	US Dollar	Day's Change	Point	Yen	DM	Local Index	% change	Local Index	% change	Local Index	% change
			Shilling			Currency Index	% chg on day				